

Q. You say the major portion of it. Other than this disposal you referred to a moment ago through the Safe Harbor system and the 220 kv lines system, which you said you did not study, how else could it be disposed of? A. I don't know of any other circuit except through the frequency changer.

Q. Did you make any examination or study to determine how much of the 60-cycle hydro and steam generated energy at Holtwood was converted from 60-cycle to 25-cycle energy? A. As I said before, the preparation of Exhibit 47 did not require such determination.

Q. The answer is you did not make such determination? A. No, I didn't.

Q. So you don't know what proportion of the 60-cycle generation was converted at Holtwood? A. No, I don't know. I didn't determine those figures at all.

Q. There is no electrical connection between the 60-cycle system and the 25-cycle system at Holtwood, is there, Mr. Howell? A. No, there is no electrical connection. There is a mechanical connection through the frequency changers.

. . .

[10210] By MR. MYSE:

Q. Referring to the 25-cycle transformers at Holtwood Substation to which you referred in your Exhibit 47, as I understand your statements in that exhibit you say that seven out of nine of those transformers are used for Baltimore. Is that correct?

. . .

[10211] THE WITNESS: I am referring to page 16 of the Exhibit 47 under the title of "Holtwood Sub-station". I do not find where I have said that 7 out of 9 of the transformers are devoted to Baltimore service.

By MR. MYSE:

Q. Isn't that the fact? A. I don't recall that detail at the moment.

Q. Isn't that what you meant when you so stated at page 17 in the Table III, column 7? A. Yes, that is stated on page 17, Table III, main transformer data, which is a leaf which was taken out of the revised engineering data to which I have previously referred as provided by the Holtwood Company.

Q. Don't you agree with the statement? A. Yes, that is what it states, 7 transformers. Two of the nine are provided for Lancaster service.

Q. Those two which provide for Lancaster service, did you make any investigation to determine whether or not those two, in addition to being used for Lancaster service, are used for Baltimore at various times? [10212] A. No, I didn't investigate the bus connections there. It might be they could shift those. I don't know.

Q. If I told you it was a fact that in addition to the 7 transformers that you show on page 17 as used for Baltimore than the two transformers also shown on that page as used for Lancaster are in addition used for Baltimore at times, would you agree? A. Yes, they could readily be if that arrangement is made on the bus.

MR. GOLDBERG: You mean if it is the fact does he agree it is the fact. If it is the fact I will even agree to it.

By MR. MYSE:

Q. Well, is it the fact? A. I said I did not investigate those transformer connections to the bus. I don't know what the arrangement is for transfer.

[10227] Q. At page 2 of Exhibit 47, paragraph 5, the last sentence, you have stated "This line—" referring to the Gunpowder line, I believe "—is leased to the Baltimore Company." Is that correct? A. Yes, sir.

Q. What evidence did you base that statement on? A. I took that from one of the transmission line drawings that I secured from the Pennsylvania Water and Power Company.

Q. Did you make any other investigation other than just taking the phrase off the drawing? A. I asked one of the officers, I believe it was Mr. Gunn, if the Baltimore Company owned this so-called Gunpowder Line or if the Pennsylvania Water and Power Company owned it. I was told that the ownership laid with the Susquehanna Transmission Company.

[10228] Q. Nevertheless you said it was leased by Baltimore? A. That was the best information I had, and it seemed a reasonable one, since the Baltimore Company was using the line, and it was owned by the Holtwood Company or its subsidiary. Obviously there would be some consideration paid by Baltimore for the use of the line.

Q. You say Baltimore is using the line. Do they actually operate the line? A. It connects with one of their substations and runs out to Gunpowder carrying their power.

Q. They don't furnish the labor to maintain it, do they? A. I can't answer that exactly in the affirmative. My impression is that it is maintained by the Holtwood organization.

Q. Did anyone ever refer you to a document or other paper or writing which might be called a lease covering the use of these facilities? A. No, nobody.

Q. Did you make any investigation to determine whether there was such a thing? A. In seeking information for this exhibit it seemed sufficient to me to read from one of your published documents that it was a leased line and to confirm from one of the important people of the company that the line was owned [10228-a] by the Holtwood Company or its subsidiary.

Q. Did you get that confirmation in writing? A. No, I got it verbally.

Q. Baltimore Company also uses another facility owned by Susquehanna known as the Highlandtown Substation, doesn't it? A. They only use pot head terminals to their cables so far as I know.

Q. Well, they use some facilities. A. Some portion of them, yes.

Q. Do you consider those facilities leased to Baltimore Company? A. If I remember correctly, the contract provides that space will be provided by Holtwood for the terminals of these cables, I mean the contract between the Holtwood Company and the Baltimore Company provided the space for these terminals to the cables.

[10229] Q. This much is true, isn't it: That the Highlandtown facility is really a distribution facility. Isn't that correct? A. If I understand your question to mean that there are cables and pot heads that are located in the Highlandtown Substation to be a part of the distribution, I think that is correct.

Q. There would also be some other facilities in the [10230] substation in connection with those pot heads and cables which would be distribution facilities, would there not?

THE WITNESS: The remaining part of the substation as I interpret it is the terminus of a transmission line and is a transmission substation.

[10314]

SAMUEL JOSEPH.

CROSS-EXAMINATION (Continued).

By MR. SPARKS:

Q. Referring to page 10,050, Mr. Joseph, and to the data which you gave on that page pertaining to the two bond issues of Penn Water, have you included in the per cent figure of 3.20 in line 10 and the per cent figure of 3.14 in line 15 any redemption costs associated with the re-funded debt? A. I don't think those costs are included,

no. They are not generally included by the Securities and Exchange Commission.

Q. Have you included any part of debt discount and expense associated with the refunded debt in those two per cent figures? A. No, and I don't think it should be included.

Q. Why not, Mr. Joseph? A. Because that is not cost of this capital. That is cost of prior capital.

. . .

[10315] Q. Could Penn Water avoid the payment of redemption premiums in retiring old bonds in order to be able to take advantage of lower interest rates? A. No.

Q. If bonds are sold at a discount or at a premium, does not the discount or premium represent in effect adjustment of the nominal interest cost expressed by the coupon rate? A. Yes, it does, and therein lies the reason for my previous answers. As you have just said, the redeemed securities might well have been issued either at a discount or a premium, and the interest rate might well in either case be adjusted to the same figure. It is for that reason that the accident of the terms of the prior issue do not in my opinion affect the cost of capital of the existing issue.

. . .

[10318] Q. Have you stated, Mr. Joseph, why you have omitted such costs from your exhibit? A. I think that is quite well explained, yes. I might summarize to say that there are such costs only by reason of the accident of the style or fashion of the previous financing, and that in my opinion the costs or the premium are not costs associated with the new financing.

. . .

[10354] Q. Is it correct to say that the basis of the selection of the ten companies was the availability of earnings reports, the availability of market prices of the common stocks, and the representativeness of the market prices? A. Yes, and the representativeness of the utility itself.

Q. Are these common stocks, Mr. Joseph, of more than average marketability? A. The common stocks of these ten companies are of more than average marketability compared to the common stocks of utility companies generally.

Q. Is that true also of the additional four common stocks? A. Yes, it is.

[10355] Q. Is it true that nearly all of the fourteen companies have plant accounts in excess of \$100,000,000 and that the ownership of their common stocks is widely distributed? A. I think that is true.

Q. What is the total number of electric and electric gas utilities having common stocks outstanding in the hands of the public for which market prices and earnings information are available as at about the end of 1945; do you know?

A. I don't know the exact number. I know that it is a good many more than fourteen.

Q. What would be your answer, Mr. Joseph, if I asked you the same question with respect to January, 1940?

Would you care to have the question read? A. There the answer would be that it is probably a good many more than ten.

Q. What has been the variation among the fourteen companies with respect to proportion of gross income available for the common stockholders? A. I don't have that figure in mind. There is probably a substantial variation.

Q. Would you think, Mr. Joseph, that that variation would range from about forty per cent to 100 per cent?

A. It very well might.

Q. Have you determined the average relationship between leverage and earnings-price ratio? [10356] A. Not the precise relationship, no.

Q. Is there such a relationship? A. Yes, there is.

Q. Can you tell us what it is generally? A. The tendency would be for the company having more stock outstanding percentagewise in relation to total capital to have a lower earnings price ratio.

Q. What has been the variation among the fourteen companies with respect to proportion of equity income paid out as dividends? A. I don't know exactly. There has probably been a considerable variation.

Q. What has been the variation among these fourteen companies with respect to the existence of dividend restrictions?

MR. GOLDBERG: Imposed by a regulatory body?

MR. SPARKS: Yes. That would include indentures, as well.

THE WITNESS: I don't know the variations in the restrictions on payments of dividends of these various fourteen companies.

By MR. SPARKS:

Q. Have you determined average relationship between earnings-price ratio and the proportion of equity income paid out, Mr. Joseph? A. No, that is probably not determinable.

[10357] Q. Does the equity income paid out affect the earnings-price ratio? A. Yes, it does.

Q. And as I understand your previous answer, that is not measurable, the effect? A. There is no precise measurement of the effect, no.

Q. What is the variation among the fourteen companies with respect to size as measured by gross revenue? A. There is quite a variation.

Q. Would you say it is substantial? A. Yes, I would.

Q. Have you made any study to determine the average relationship between earnings price ratios and size? A. The earnings price ratio would tend to be lower for a larger company, all other things being equal.

Q. What is the variation among the fourteen companies with respect to proportions in non-electric business? A. Well, some are exclusively electric and some are not.

Q. Have you made any study to determine the comparative investor appraisals of investments in electric and gas or transport operations? A. Well, I have dealt with that problem. I think that the investor appraises the electric operations more highly than he does other utility operations.

Q. What is the meaning of the term "Earnings-price [10358] ratios," as you have used it in connection with page 38 and page 38-A of Exhibit 46? A. It is the relation of earnings to price. Generally the earnings are for the most recent period, the most recent that is to the date of the price that you are using.

Q. Have you finished your answer, Mr. Joseph? A. Yes.

Q. How are the earnings ascertained, Mr. Joseph? A. Generally they are published yearly.

Q. Mr. Joseph, would the return expected by equity investors be approximately 7.11 per cent for the purpose of this proceeding if the rate of return determination were to be made as of January, 1940?

THE WITNESS: May I have that question again, please?

TRIAL EXAMINER: Yes.

(Question read.)

THE WITNESS: No, not necessarily.

By MR. SPARKS:

Q. Would the return expected by equity investors be approximately 12.92 per cent for the purpose of this proceeding if the rate of return determination were to be made as of March, 1942? A. I would make the same answer there, Mr. Sparks.

Q. Is the return expected by equity investors approximately 4.88 per cent for the purpose of this rate of return [10359] determination as of the present time? A. As at March, 1946?

Q. Well, I am speaking of the present proceeding, Mr. Joseph. A. Well, to the extent that the data have changed, you might use later data. And the 4.88 is not necessarily identical with the return that is expected by investors because of the discounting factor that we have previously discussed.

Q. Would you say, Mr. Joseph, that the lower the earnings price ratio the better the quality of the common stock as viewed by investors, while the higher the earnings price ratio the lower the quality of the common stock as viewed by investors? A. There would be such a tendency, Mr. Sparks.

. . .

[10410] Q. Mr. Joseph, do not investors' appraisals and investment choices determine and establish the market prices? A. Yes, they do.

Q. How, then, can the investor in this appraisal process start with the earnings-price ratio? A. He starts with an earnings-price ratio which he then adjusts.

. . .

[10427] Q. Mr. Joseph, in which of the other instances shown on page 38 A have adjustments been made for non-recurring tax reductions in stating earnings for 1945? A. By me in no instances.

Q. Well, were they made by anyone? [10428] A. By the companies, do you mean?

Q. For instance? A. I don't know.

Q. Did you make no investigation of that when you took the figures for your earnings column on page 38-A? A. I made no such investigation.

Q. You just accepted figures from the source which you used. Is that correct? A. I accepted the published figures; yes, sir.

Q. You made no adjustments of any kind. Is that correct? A. Because I thought it would be improper to do so.

Q. And you accepted those figures without any question in your mind. Is that correct? A. That I was doing the right thing; yes, sir.

.

[10430] Q. Mr. Joseph, do the earnings which you have used in computing the earnings-price ratios on page 38 of Exhibit 46 for periods earlier than the calendar year 1945, exclude in all cases income resulting from non-recurring tax reductions? A. To the extent that the exclusion was made by the company in its published reports; yes, sir.

.

[10438] Q. Mr. Joseph, yesterday we mentioned the \$2,300,000 item in connection with Detroit Edison. I show you the Detroit Edison Company annual report to stockholders for 1941 and refer you to page 9, the paragraph at the bottom of the page which reads as follows:

"In computing Federal income and excess profits taxes for 1941, we deducted from taxable income the five per cent call premium, \$2,500,000, paid for redemption of series 'D' bonds on March 1, 1941, plus the unamortized bond discount and expense amounting to \$700,000. We estimate that these non-recurring allowable deductions reduced our Federal income and excess profits taxes by \$2,300,000."

Have I read that correctly? A. Yes, sir.

Q. Now, was net income adjusted by the company for that amount, Mr. Joseph? A. I take it that it was not.

.

[10441] Q. Well, let me ask you, Mr. Joseph, didn't the \$2,300,000 item have the effect of increasing the income account for the year 1941 or the net income for the year 1941? A. Yes, sir.

Q. And the \$664,000 that you are talking about is the reduction in the income account for the year 1941. Is that correct? A. That results—may I see that statement

again, please? (Document handed to the witness.) That is correct, the 664 is a reduction.

Q. And you made no adjustments for either of those figures in your statement of the earnings for Detroit Edison for 1941. Is that correct? A. I made no adjustments, and I consider that any adjustment of such a nature would be improper.

. . .

[10469] Q. Well, you haven't, Mr. Joseph, informed yourself to any extent on adjustments that the investor would make in the earnings-price ratio with regard to any one of the companies shown on page 38-A, have you? A. I think I am generally pretty well informed on that subject.

Q. Well, you haven't indicated that information in your exhibit, have you? A. Because I believe it unnecessary to do so.

Q. Well, do you believe it unnecessary to do so because you go back to your first premise that the earnings-price ratio is sufficient evidence of the investor's appraisal? Is that correct? A. Well, there are grounds for that judgment, yes.

. . .

[10471] Q. Mr. Joseph, the earnings-price ratios which you show on page 38 were all computed in the same manner that you computed the earnings-price ratios on page 38-A, were they not? A. Correct.

Q. So that in the computation of any of the earnings-price ratios on page 38, you made no adjustments of a character similar to those we have been mentioning today, have you? A. I did not adjust the published figures, no, sir.

. . .

[10511] MR. MYSE: Mr. Examiner, we are prepared to initiate the cross-examination of the witness Davis this morning. How far we will get this week I am not sure, of course, but before I call the witness Davis back to the stand for cross-examination I would like

to direct your attention to Section VII of Exhibit 47 and point out that an examination of that section by me shows that it is entirely a characterization or interpretation of various contracts which are already in evidence in this proceeding by a witness who is not a lawyer and who is, as I understand, an engineer who has rushed in where normally lawyers and even judges have feared to tread.

For that reason, I object to the receipt in evidence of Section VII of Exhibit 47, and I suggest that it would be appropriate to have a ruling on that objection at this time, because if the objection is sustained it may save two to three days of cross-examination on that section.

MR. HALL: Will you read back that statement?

(Statement read.)

MR. HALL: Mr. Examiner—

TRIAL EXAMINER: There doesn't have to be any discussion on it. What the Examiner has in mind are two things: First of all a legal document is an attempt to put into writing something that a non-lawyer has conceived of at the beginning, and [10512] therefore while it would be quite appropriate to sustain motions to strike or objections to questions put to a witness who is not a lawyer as to the legal effect of a contract, however, the Examiner is not prepared to rule that a witness who understands the operations of an electric utility may not testify as to what operations are involved or called for or covered by the contract.

MR. MYSE: Well, Mr. Examiner, that may all be true, but I think if you will examine Section VII there is very little about operations in there, and it is entirely an interpretation of the contracts. It is pretty obvious to me that it is a legal interpretation of those contracts. There is nothing in there about operations.

TRIAL EXAMINER: The Examiner is not prepared to rule that that section does nothing other than interpret that contract in a legal sense, and the Examiner is not prepared to rule that it does even that.

Now, the other matter that the Examiner had in mind is this: This witness prepared an exhibit and testified as to allocation. He couldn't have done it without referring to the contracts, and Section VII may be necessary to consider in connection with a determination as to how the witness did consider those contracts.

MR. MYSE: Well, in answer to that, I think that is probably true, that in the witness' Exhibit 64, he had to make [10513] certain assumptions as to the interpretation of contracts, but that doesn't necessarily follow from that that a witness who is not a lawyer can come in here and introduce an exhibit which is an interpretation of the contracts. That is a legal matter which properly is argument in a brief, and no other place.

TRIAL EXAMINER: I don't see any legal argument in Section VII.

MR. HALL: Mr. Examiner, I think it is perfectly apparent to everyone—

TRIAL EXAMINER: Just a minute. I don't require any further discussion on the matter. The objection is overruled and the motion is denied.

MR. MYSE: I call Mr. Davis.

Thereupon

GEORGE H. DAVIS

resumed the stand, and having been previously duly sworn, was examined and testified further as follows:

CROSS-EXAMINATION (Continued).

By MR. MYSE:

Q. Mr. Davis, unless I specifically inform you otherwise, you may assume that as far as this morning is concerned my cross-examination is directed to your testimony and the statements appearing in Section VII of Exhibit 47.

Now, as I understand your testimony and the Exhibit 47 [10514] and the Section I have referred to, you included therein certain statements with respect to the contract between Penn Power and Light Company on the one hand and Safe Harbor and Holtwood on the other. Am I correct in that? A. That is right.

Q. Now, first of all at page 45 of Exhibit 47, paragraph 11, you state that that contract remains in force to October 31, 1946. Do I understand by that statement that the contract is no longer in force? A. No, it is an automatically renewable contract and at the time this was written so far as any notice of cancellation which is required 18 months prior to expiration, '46 was the earliest that it could be cancelled.

[10515] Q. Now, that contract as I understand your testimony obligates Holtwood and Safe Harbor jointly and severally as "Generating Companies" to supply certain requirements in the Lancaster and Harrisburg areas of the Pennsylvania Power and Light Company and the distribution area of the former Pioneer Electric Light Company adjacent to Holtwood. Isn't that correct? A. That is correct.

Q. Now, under that contract, Pennsylvania Water and Power Company is authorized to act as the agent for Safe Harbor. Isn't that right? A. That is true.

Q. Do you know whether or not that contract was entered into with the approval of Baltimore Company, and when I say Baltimore Company you can assume I mean the Consolidated Gas Electric Light and Power Company of Baltimore. A. As I understand it, all contracts since 1931 have to have the approval of Baltimore Company before they are entered into.

Q. Were they so approved? A. I assume they were.

[10516] Q. Now, what would you say that the major amount of revenue paid by Pennsylvania Power and Light Company is for? A. You mean in the bill rendered by Holtwood?

Q. No, sir. I said revenues paid by Pennsylvania Power and Light Company. A. They pay for firm power delivered to supply the Lancaster load requirements under this contract.

Q. As a matter of fact, they also make payments for interchange energy which is received from the Holtwood-Safe Harbor system. Isn't that correct? A. That is true.

Q. They may also pay for special facilities under that contract. Isn't that right? A. That is true. That is a matter of the delivery of the energy which they really pay for.

MR. MYSE: May I have that answer, please?

[10517] (Answer read.)

By MR. MYSE:

Q. Well, you agree, do you not, that the interchange transactions are separate and distinct from firm power transactions, don't you? A. They are billed at a different rate under different provisions of the contract.

Q. And they are measured separately, too, are they not? A. That is true.

[10537] Q. Now, Mr. Davis, at page 44, the top paragraph of Exhibit 47, you made a statement, as I understand it, that under the contract the obligation of the generating companies may be reduced somewhat at their option during periods of low flow. Is that a fair summary of what your statement means? A. That was provided for in the original contract or in this contract.

Q. That is 76 you are referring to. Isn't that correct, Exhibit 76? A. That is right.

Q. Now, that means, does it not, that if during a period [10538] of low flow as defined in the contract, and I think you also made a note of it in your Exhibit 47, requirements of some other customer of Holtwood or Safe Harbor or both demands the use of some of the capacity or energy generated at Holtwood or Safe Harbor, the generating companies have the option of reducing the demand by Pennsylvania Power and Light Company and serving that other customer. Isn't that correct? A. I don't quite follow that.

Q. Well, is my statement correct or not?

THE WITNESS: Would you read that statement, please?

(Question read.)

THE WITNESS: I don't seem to recall any statement to that effect. The only modification that this paragraph provides for is that they may take the option of having the Lancaster load requirements on Holtwood reduced by 20 per cent during periods of low flow, and Pennsylvania Power and Light under that option could ask for 20 per cent excess during periods of high flow.

By MR. MYSE:

Q. Well, periods of low flow means, does it not, days on which the river flow at Holtwood is below 25,000 cfs. Isn't that correct? A. I believe that is the way they define it.

Q. Now, if you had a day of average river flow during a day at Holtwood of 20,000 cfs, as I understand that pro-

vision, and I want you to correct me if I am wrong, Holtwood would have [10539] the option of reducing the demands made by Pennsylvania Power and Light Company on the Holtwood-Safe Harbor system by any amount up to ten per cent on the peak. Is that correct? A. They would have that option if they accepted it under this contract.

Q. I am wrong. It was any amount up to twenty per cent. A. Twenty per cent on off-peak periods and ten on on-peak periods. You said it right. You said on-peak periods.

Q. It would be any amount up to twenty per cent during on-peak periods on low-flow days. Isn't that right? A. That is right.

[10546] Q. Now, referring to page 48 of Exhibit 47, you say that the contract involving supply to the Coatesville area of Philadelphia Electric Company continues until March 31, 1942. Am I to understand that is the time that contract terminated? A. That is automatically renewable for periods of three years unless an 18-months' notice is given to cancel it.

[10547] Q. The contract we have been referring to is identified in this record as Exhibits 73, 74 and 75. Is that correct? A. That is correct.

Q. Now, under that contract Hydro, as defined in that contract, is obligated to furnish the requirements of the Coatesville area. Isn't that correct? A. That is true.

Q. And how is Hydro defined in that contract? A. They call Holtwood and Safe Harbor "Hydro."

Q. That means that Safe Harbor as well as Pennsylvania Water and Power Company is obligated under that contract, does it not? A. It means it is a party to the contract.

Q. Doesn't it mean that it is obligated? A. The only obligation Safe Harbor has left is to reaffirm its oper-

ations under the other contract under which it sells its whole output.

MR. MYSE: I move to strike the answer, Mr. Examiner, [10548] as wholly unresponsive to my question.

TRIAL EXAMINER: The motion to strike is denied. What is the other contract that you referred to?

THE WITNESS: E, F and G.

MR. MYSE: We will get to that in due course, Mr. Examiner, but I would like to have an answer to my question as to whether or not Safe Harbor is obligated under this contract in his opinion?

MR. GOLDBERG: Mr. Examiner, it has been answered and the motion to strike it has been denied.

TRIAL EXAMINER: Do you have anything further to add to your previous answer?

THE WITNESS: As an engineering and operating matter, Safe Harbor has no physical ability to do anything under this contract.

By MR. MYSE:

Q. I didn't ask you about the physical ability. I asked you about the obligation. A. If it is a legal obligation, I don't know.

Q. Then if there is a legal obligation, you haven't considered it as one, have you? A. I have not.

[10550] Q. Now, how are the demands measured under Exhibits 73, 74 and 75 for purposes of billing? A. That is a 30-minute integrated demand, as I recall.

Q. Now, do you agree that if the same service had been measured on an integrated hourly basis, the demand would have been less? A. It would have to be the same or less.

Q. It would probably be less, would it not? A. Very likely it would.

[10551] Q. Mr. Davis, will you look at Article II, Section 1 of Exhibit 73? It is that Article II that spells out the obligations of the parties, does it not? A. Yes.

Q. And it indicates that Hydro shall be obligated to supply the requirements of Philadelphia Electric Company at Coatesville. Isn't that right? A. That is what it says.

Q. And the contract also says that Hydro means Safe Harbor and Penn Water. Isn't that correct? A. That is right.

Q. And there is no distinction drawn between Safe Harbor and Penn Water, is there? A. No, Safe Harbor is ignored entirely.

Q. Is there any distinction drawn between Penn Water and Safe Harbor? A. None whatever.

Q. You say Safe Harbor was ignored entirely. Was that your testimony? A. That is right.

Q. As I understand that, that means it is ignored by [10552] making itself a party and calling itself one of Hydro. Isn't that correct? A. The two names go under the title of Hydro in this contract.

Q. And that is true throughout the contract, isn't it?

MR. GOLDBERG: Let him finish.

By MR. MYSE:

Q. Had you finished? A. There are no operating acts specified to be performed by Safe Harbor.

Q. Are there any operating acts specified in the contract to be performed by Penn Water? A. No, they are specified to be performed by Hydro. Holtwood is the only company that has any ability to perform them.

MR. MYSE: I move to strike the answer with respect to the ability of Holtwood, Mr. Examiner, as not responsive to my question.

TRIAL EXAMINER: The motion to strike is denied

By MR. MYSE:

Q. But so far as the contract is concerned, there is no difference drawn between Penn Water or Holtwood as you call it and Safe Harbor. Am I correct in that? A. Holtwood and Safe Harbor are combined in the [10553] contract under the designation of Hydro.

Q. And there is no difference specified in the contract between the two. Is that correct? A. No.

[10563] Q. Now, as I understand your Exhibit 47, pages 52 to 54, and the Tables 9, 10 and 11, which accompany those pages, you were there referring to the contract between Holtwood or Pennsylvania Water and Power Company, Safe Harbor, Baltimore Company, Pepco on the one hand, and The Pennsylvania Railroad on [10564] the other, identified in this proceeding as Exhibit No. 10. Is that right? A. That is right.

Q. Now, under that contract, the contract defined the word "Supplying Companies," does it not? A. Yes.

Q. Now, who are the Supplying Companies? A. Those are the four companies on the one hand as against the railroad company on the other, including Washington Company.

Q. When you say Washington Company, you mean Potomac Electric Power Company? A. That is right.

Q. Now, who are the "Electric Companies" as defined in that contract? A. They are the other three—Baltimore, Holtwood and Safe Harbor.

Q. What is the distinction between the Electric Companies and Supplying Companies in terms of obligations under that contract? A. Washington Company has no obligation to supply power unless it has it available. The total obligation for continuous service is placed on the Electric Companies.

Q. Now, can you refer me quickly to that provision of the contract identified as Exhibit No. 10, which you say [10565] relieves Pepco of the obligation to supply certain

services? A. Well, there is one reference to it in Section 2 of Article XII on page 22, but there is another one that is more specific than that.

Q. Section 2 of Article what? A. Article XII on page 22.

Q. Well, in Exhibit 10 there are different page numbers applicable, are there not? A. Oh, this is in the original contract, that page and article that I was referring to.

MR. GOLDBERG: Article XII, page 36 in the official exhibit.

By MR. MYSE:

Q. And that reference you made a moment ago to Section 2 of Article XII, actually appears on page 37. Is that right?

MR. GOLDBERG: He doesn't have the official copy before him.

THE WITNESS: The second paragraph on page 37, yes.

By MR. MYSE:

Q. Now, what other place in Exhibit 10 shows any reference to the relief for Washington Company or Pepeco from the obligation to serve the railroad with certain services? A. That is the only one I recall. This is a little more than the one I referred to in the original contract.

[10566] Q. Now, under Article II, however, that provides, does it not, for the contractual supply as an obligation to the Railroad Company, as the obligation of Electric Companies? A. That is true.

Q. And Electric Companies is defined in the same contract as Safe Harbor and Penn Water without distinction. Isn't that correct? A. That is right. Safe Harbor, Penn Water and Baltimore without distinction.

Q. I stand corrected.

Who furnishes the special facilities for the railroad use under Exhibit 10? A. Certain lines and substations are furnished by Holtwood. Generating and converting facilities are supplied by Safe Harbor.

Q. Are any of the facilities listed on Table 9 of Exhibit 47 supplied or furnished by Baltimore Company?

A. I believe not.

Q. Don't you know that they are not? A. I know they are not.

Q. As a matter of fact, they are all furnished by either PEPCO, Safe Harbor, or Penn Water. Isn't that correct?

A. That is right.

[10567] Q. And to be entirely accurate, some of them are furnished by Susquehanna Transmission Company of Maryland, are they not? A. That is true. I have referred to Holtwood always in my study as including Susquehanna Transmission of Maryland.

[10568] Q. Now, Mr. Davis, these special facilities shown on Table 9 of Exhibit 47 to the extent they are furnished by Safe Harbor, are used in furnishing service to the railroad both in Pennsylvania and Maryland, are they not?

A. They are used in delivering service to Holtwood and Baltimore.

Q. Does that mean that none of the facilities shown on Table 9 owned by Safe Harbor are used for furnishing service to the railroad? [10569] A. They are used for furnishing service to Holtwood, who in turn furnishes it to the railroad and to Baltimore.

Q. So that the energy generated by means of those facilities is actually consumed by the railroad. Is that your answer? A. That is right.

Q. Now, when you say that the services are furnished to Holtwood who in turn furnishes it to Baltimore, what do you mean by that? A. I mean that Safe Harbor generation is all sold at the low tension side of the transformers at the Safe Harbor plant to Holtwood and to Baltimore.

Q. How did you arrive at the conclusion that it is all sold at those low tension transformers to Holtwood? A.

That was the operating arrangement described in the contract.

Q. Which contract do you now have reference to? A. The contract identified as E, F and G.

[10570] Q. If I understand your testimony you say it is sold there because of the provisions contained in the contract identified as E, F and G. A. That is right.

Q. And that is the sole basis you have for that conclusion? A. That is right.

Q. Now, if I understand your testimony with respect to the services furnished to the railroad at both Thorndale and Perryville, those services originate at Safe Harbor, do they not? A. That is right.

Q. At least in large part? A. The energy is generated largely at Safe Harbor.

Q. Well, as a matter of fact, I don't think my statement was correct, Mr. Davis.

The services furnished to the railroad are furnished at Conestoga and Perryville. Isn't that correct? A. They are delivered to Holtwood's transmission system [10571] at Conestoga and Holtwood transmits to Thorndale and Perryville, or they are delivered to Holtwood's facilities at Safe Harbor, which is Conestoga. That is the same thing.

Q. You don't mean to say that Holtwood transmits to Thorndale, do you? A. They deliver to the railroad at Safe Harbor for Thorndale and deliver to Holtwood at Safe Harbor for Perryville.

Q. But there is no transmission facility owned by Holtwood or Safe Harbor between Conestoga and Thorndale, is there? A. Thorndale is just a metering point. That is the railroad's transmission line that goes from Safe Harbor to Thorndale.

Q. So the services delivered to the railroad west of Thorndale are delivered at Conestoga, are they not? A. That is right.

Q. And the services delivered to the railroad for use by the railroad south of Perryville are delivered at Perryville? A. That is right, delivered to Baltimore at Perryville.

Q. We will get to that in due course, but they are actually delivered to the facilities of the railroad at Perryville, are they not? A. To the facilities of the railroad, that is right.

[10572] Q. Now, the energy which you say is delivered to the railroad for railroad use west of Thorndale and south of Perryville is all 25-cycle single phase energy, is it not? A. That is right.

Q. Some of it may be converted from 60-cycle three phase energy at Safe Harbor. Isn't that right? A. That is true.

Q. Some energy may also be converted from 60-cycle three phase and furnished to the railroad at Benning in the District of Columbia. A. That is right.

Q. Now, as I understand it, all of the 25-cycle energy generated at Safe Harbor is transmitted through the Conestoga sub-station. Is that right? A. That is the way I understand it, yes.

Q. But not all of that energy is transmitted over the Perryville line, is it? A. No.

Q. Only that portion used from taps off the Perryville line is transmitted over the Perryville line. Isn't that correct? A. There are four circuits on the Perryville line. Two of them normally operate to deliver energy south from Perryville, and the other two north from Perryville, and there are two taps on the south lines, one at Fishing Creek and one at Conowingo.

[10573] Q. Fishing Creek is in Pennsylvania, isn't it? A. Yes.

Q. And Conowingo is in Maryland. A. Right.

[10578] Q. Isn't it a fact that some of the energy that is ultimately transmitted through Conestoga sub-station is

energy received at Safe Harbor from Baltimore Company?

A. That is right.

Q. That is what is known as backfeed from Baltimore.

A. I think so, yes.

Q. Do you know whether the amount of backfeed received [10579] at Safe Harbor and ultimately transmitted through Conestoga sub-station is substantial in amount?

A. A substantial amount of backfeed reaches Safe Harbor. How much of it goes to the railroad company, I don't know.

Q. Did you make any study to determine the relative proportions of the backfeed which ultimately goes to the railroad? A. The proportion of backfeed used for firm power is the only proportion that I used or determined. Whether it was firm power delivered to the railroad or to some other customer, I didn't distinguish.

Q. You know that there was some amount of that backfeed, however, that did go to the railroad? A. I think so, yes.

Q. I think you testified just a moment ago that the energy furnished to the railroad via Conestoga sub-station was sold by Holtwood Company, as I remember the testimony. A. Some of that energy might be Baltimore's entitlement from Safe Harbor, and some Holtwood's entitlement. Any part of it that was made up of Holtwood's entitlement was sold by Holtwood.

Q. So when you were talking in terms of sales in that connection, you are referring back to the contract E, F and G when you are talking about entitlements, are you not? A. That is right.

[10580] Q. Now, is there anything in Exhibit 10 which specifies as to who sells the services to the railroad at various points? A. I don't think it is in Exhibit 10, no.

Q. You say you don't think. Will you tell me whether it is or not? A. There is nothing in Exhibit 10 which specifies any particular amount to be furnished by any particular party.

[10581] Q. And there is nothing in that Exhibit 10 which specifies that the energy delivered in Pennsylvania to the railroad is a sale by Holtwood and the energy delivered in Maryland to the railroad is a sale by Baltimore, is there? A. I don't think so. I haven't seen it.

Q. You say you don't think so. Don't you know there isn't? A. I never found it.

Q. Well, you studied it—— A. I am pretty well convinced it is not there.

Q. The fact is it isn't there. Is that right? A. I will take your word for it.

Q. I don't want you to take my word for it. Isn't it true? A. I will confirm it.

. . .

[10583] Q. Is there anything in Exhibit 10 which specified that Holtwood's service area is in Pennsylvania and Baltimore's service area is in Maryland? A. No.

. . .

[10590] Q. And as a matter of fact all bills rendered to the railroad company are rendered by Consolidated Gas Electric Light and Power Company of Baltimore? A. That is right.

Q. So that what those dollars represent in the last column of Table 9 and in column 4 of Table 11 for the various years, and what those kwh represent in the second to the last column of Table 10, and in the column 3 for the various years on Table 11 are an arbitrary division of the kwh delivered to the railroad in Pennsylvania as compared to the kwh delivered to the railroad in Maryland, together with an arbitrary division of the dollars received by Baltimore based on those kwh delivered in the respective areas. Isn't that right? A. The dollars are divided on the ratio of kilowatt hours, but I wouldn't say the kilowatt hours was an arbitrary division. It is an actual measurement.

Q. It is a measurement of the kilowatt hours delivered in each area. A. That is right.

Q. There is nothing in Exhibit 10 of the Pennsylvania [10591] Railroad contract which specifies those respective geographic areas, is there? A. Nothing.

[10601] Q. How is Safe Harbor compensated for the 25-cycle single phase energy which is ultimately used by the railroad in Pennsylvania and Maryland? A. It is compensated for all of its energy by Holtwood and Baltimore.

Q. I didn't ask you about all of its energy, Mr. Davis. I asked you about this portion of the 25-cycle single phase energy ultimately used by the railroad in Pennsylvania and Maryland. How is it compensated for that? [10602]

A. That is included in all of it.

Q. Specifically how does it get its compensation? A. From Holtwood and Baltimore for its total output.

Q. Now, what contract if any does it get that compensation under? A. The E, F and G.

Q. Does it get any under H and I? A. Safe Harbor?

Q. Yes. A. It gets nothing under H and I.

Q. How is Safe Harbor compensated for the energy furnished to the railroad in Pennsylvania?

MR. GOLDBERG: I object to that, Mr. Examiner. It has been answered.

TRIAL EXAMINER: I will permit it.

THE WITNESS: Safe Harbor gets compensation for everything it produces at the—

By MR. MYSE:

Q. I haven't asked you about everything it produces.

A. Anything you want to name is included in "anything it produces", and the answer will be the same.

Q. I would like a specific answer as to how it is compensated for the 25-cycle single phase energy used by the railroad in Pennsylvania.

MR. GOLDBERG: That has been answered twice.

[10603] TRIAL EXAMINER: Do you have any doubt about what he has said?

MR. MYSE: Yes, I think he is clearly evasive on the point.

TRIAL EXAMINER: Now, can you answer the question directly?

THE WITNESS: There is no specific item of energy set out for any compensation. It is all compensated for in one block at the Safe Harbor low tension transformer terminals.

By MR. MYSE:

Q. Under what contract? A. E, F and G.

Q. Do I understand, then, that Safe Harbor is compensated for the 25-cycle energy ultimately used by the railroad in Pennsylvania under E, F and G?

. . .

THE WITNESS: It doesn't make any difference where any energy that is generated at Safe Harbor is used. It is all [10604] compensated for at the terminals of the transformers in the Safe Harbor plant.

. . .

Q. Well, how is Penn Water compensated for the energy that is consumed by the railroad in Maryland?

MR. GOLDBERG: Which energy?

MR. MYSE: The 25-cycle single phase energy.

MR. GOLDBERG: You mean which Penn Water sells?

THE WITNESS: Any energy that Holtwood is entitled to from Safe Harbor that goes into Maryland is sold by Holtwood to Baltimore Company.

By MR. MYSE:

Q. How does it get its compensation from the Baltimore Company for that energy? A. It gets its compensation through H and I.

Q. How does Safe Harbor get its compensation for the special facilities it provided to the railroad under the contract identified in this proceeding as Exhibit 101 [10605] A. Under the contract E, F and G.

Q. There is no doubt in your mind that those special facilities provided by Safe Harbor were provided solely for the use of the railroad? A. That was the cause of their being installed.

Q. Well, now, how is Penn Water or Holtwood as you call it compensated for those facilities which it installed for the use of the railroad, namely the Conestoga substation and Perryville line? A. It gets compensation from Baltimore by the portion of the bill that is remitted to Holtwood.

Q. What about that portion of the Perryville line that lies in Maryland? How does Holtwood get its compensation from Baltimore for that portion? A. It would get it the same way.

Q. Through F and I? A. It would get what it does not get from the railroad through H and I.

Q. Well, does the amount which Baltimore pays Penn Water, and as I understand that, on Table 10, the last column shows the amount, compensate Penn Water for special facilities provided for the railroad? A. That is right.

Q. All of the special facilities provided for the railroad? [10606] A. Well, it is the same proportion of the special facilities that it is of the energy, and if Holtwood supplies more or less of those special facilities than it gets compensation for in this bill, that is washed out under the terms of H and I. It would get any difference there.

[10607] Q. Do you know what proportion of the special facilities provided by Penn Water to the railroad are provided for use in Pennsylvania as distinct from use in Maryland? A. Penn Water provides very little special facilities for use in Maryland.

Q. Well, they provide part of the Perryville line, don't they? A. That is right. The Perryville line and Conestoga substation is supplied entirely by Holtwood—

Q. Well— A. —for delivery to Perryville, Fishing Creek and Conowingo.

Q. Well, now, insofar as the delivery to the railroad at Fishing Creek is concerned, that is a very small percentage of the total delivered over the Perryville line. Isn't that right? A. I think so. Yes.

Q. So you can say substantially all of the use of the Perryville line is for service to the railroad in Maryland. Isn't that correct? A. The only other outlet is through the trolley meter [10608] at Perryville. Otherwise, that would be delivered to the railroad at Perryville in Maryland.

Q. Can't you answer my question directly, Mr. Davis?

THE WITNESS: Well, only half of the Perryville line is connected so that it can supply anything in Maryland except through the trolley. The other half is for the supply or for connection with Philadelphia Electric Company.

By MR. MYSE:

Q. Well, at least to that extent that you have half of the line serving the railroad, substantially all of that half is used for service to the railroad in Maryland? A. A large portion of that half is supplied to the railroad in Maryland.

Q. And similarly a large proportion of Penn Water's investment in Conestoga substation is used for service to the Perryville line which in turn is largely a service to the railroad in Maryland. Isn't that right? A. The same proportion of the substation as the line.

Q. Now, with respect to these other two circuits you spoke of, are they used solely for interchange, as you call it, with P. E.? A. They deliver power to the railroad lines

at Perryville [10609] which supply service north of Perryville, and that is interchange with Philadelphia Electric Company.

Q. Both of them? A. Both.

Q. The two circuits? A. That is right.

Q. Is that the only use made of those lines? A. There is no use except to deliver power to the Philadelphia Electric Company's area, to the railroad in the Philadelphia Electric Company's area.

Q. Now, what you mean by that I take it is that you don't have any doubt that the energy which is transmitted over those two circuits to Perryville is not used for the railroad, do you? A. Oh, no. It is all used for the railroad.

[10634] Q. And when you say the Philadelphia Electric Company's [10635] area, I take it you refer to a contractual area under some contract which is not in evidence in this proceeding. Is that right? A. It is my impression that in the interchange contract it specifies north of Perryville and east of Thorndale as Philadelphia Electric Company's area, and west of Thorndale and south of Perryville as the electric companies' area.

MR. GOLDBERG: May we have the exhibit number reference of the agreement you just referred to?

THE WITNESS: That is Exhibit Number 134.

TRIAL EXAMINER: Electric companies?

THE WITNESS: That means Holtwood, Safe Harbor and Baltimore, according to the contract. I find that in the interchange agreement.

By MR. MYSE:-

Q. You do find it? A. Yes.

Q. What Section? A. That is Section 1.

[10651] MR. MYSE: I would like to know now, Mr. Examiner—it is a very simple question—whether or not when he used the phrase “Holtwood sales” he meant that Holtwood was acting as agent for itself and Safe Harbor. I don’t know what his answer is, and I would like an answer to that question.

MR. GOLDBERG: You mean, did he consider that Holtwood sells it alone?

MR. MYSE: No, sir, that isn’t the question.

TRIAL EXAMINER: He may answer the question, but you are not called upon to construe the contract any further than you construed it in preparing the exhibit and your testimony.

THE WITNESS: I construed it in my exhibit as Holtwood dealing with Philadelphia Electric Company and with Pennsylvania [10652] Power and Light Company for the sale of firm power just as if Safe Harbor had never been mentioned in the contract.

By MR. MYSE:

Q. Do I understand that answer to mean you did not consider that Holtwood was acting as agent for Safe Harbor? A. I didn’t consider that word “agent” at all.

Q. Well, did you consider that Holtwood was acting as agent for Safe Harbor when you said Holtwood made the sales to the three Pennsylvania customers that I referred to on Table 4? A. I considered that Holtwood was making those sales itself.

Q. Does that last answer mean that you did not consider Holtwood as agent for Safe Harbor? A. Holtwood was selling the power—

TRIAL EXAMINER: Just a minute, Mr. Witness.

Answer the question as directly as you can.

THE WITNESS: I haven’t answered as directly as I might because I don’t know just what he is putting into

that word "agent"; whether he has some legal concept I don't understand or not.

TRIAL EXAMINER: You are not called upon to guess what counsel is trying to eventually arrive at through his questions.. You just answer his questions as put to you and if on re-direct examination your counsel still decides there is something [10653] that should be covered, he may bring that out.

THE WITNESS: I considered in all the study I have made that Holtwood was acting alone.

By MR. MYSE:

Q. That it was not acting as "agent" for Safe Harbor? A. No.

Q. Now, the amount of "Holtwood sales of energy" shown on Table 4 of Exhibit 47 for Pennsylvania Railroad Company in the year 1944 is actually the amount of energy delivered to the railroad in Pennsylvania. Isn't that correct? A. That is true.

Q. Now, who collected the money for that delivery? A. Baltimore collected the entire amount from the railroad company, and Holtwood collected for this 194 million from Baltimore.

Q. You say Holtwood collected for the 194 million from Baltimore. Actually what happened was that the total amount collected by Baltimore was divided up on the basis of the ratio of 194,082,000 kwh to the total amount of energy furnished the railroad in the year 1944. Isn't that right? A. That is right. That is the way they handled the bill.

Q. Now, Holtwood didn't actually render a bill to the Pennsylvania Railroad, did it? A. No, the railroad didn't care which one the power came [10654] from.

[10657] Q. Now, Table 5 of Exhibit Number 47, you show what is labeled Pennsylvania Water and Power Company monthly revenues and payment for interchange power over

northern ties, and you include what you label "Purchases and Sales, Pennsylvania Power and Light Company," do you not? A. That is right.

Q. Now, actually the purchases and sales of interchange to Pennsylvania Power and Light Company are made [10658] by Generating Companies as defined in that contract. Isn't that correct? A. That is what the contract says.

Q. And "Generating Companies" again includes Safe Harbor as well as Pennsylvania Water and Power Company. Isn't that right? A. That is also stated.

TRIAL EXAMINER: What contract was that?

Q. And the agreement we just mentioned a moment ago [10659] is the one covering the purchases and sales to Pennsylvania Power and Light Company, as you label it, which has been identified in this record as Exhibit Number 76 and 77. Isn't that right? A. That is right.

[10660] Q. While we are on homework, at 10523 you agreed to make a check to determine what part of the supply to the Lancaster area was from Safe Harbor, did you not? A. I said I didn't remember whether I had ever done that, and you asked me to check up and see if I had and I found I had never figured out a percentage, although you asked me if a large portion of the delivery did not come from Safe Harbor, and I find that it did.

[10662] Q. Is there anything in Item H beginning with page 25 of the supplemental agreement, page 27, the supplemental agreement as of June 1, 1931, which specifies the transmission services or facilities furnished to Baltimore by Holtwood? A. The provision for the transmission from Safe Harbor to Baltimore is not included in this contract, that is from Safe Harbor to Baltimore. From Holtwood to Baltimore is what is provided here.

Q. Is there anything provided in either H or I concerning the provision of transmission services or facilities from Ellicott City to Takoma Park? A. No.

Q. Where do you have to go to find anything in any contract covering those services or facilities? A. You find those in E, F and G.

[10663] Q. Can you be more specific to the article in E, F and G involved, or articles? A. Article VII on page 9 is the description of the transmission services.

Q. That however, covers only the 220 volt transmission services between Safe Harbor and Baltimore and does not cover the 220 transmission line between Ellicott City and Takoma Park, does it? A. No, that is in a supplement, I believe.

Q. Well, let's see if we can specify which supplement and which paragraph. My understanding is that it is Item "F" consisting of the supplemental agreement as of August 1, 1932. Isn't that correct? A. That is right.

Q. So it can be said that in so far as transmission services and facilities are concerned, P. W. furnished service to Baltimore under E, F and G. Isn't that correct? A. That is right.

[10685] Q. Well, are you saying that Unit Number 2 of the 25-cycle single-phase generating units was provided in the initial development of Safe Harbor? A. The general provision is in the railroad contract for Electric Companies, so-called, to provide all the necessary generating, transmission and switching equipment.

Q. It doesn't say that the generating facilities to be provided by Electric Companies under Exhibit Number 10 shall be provided by either Penn Water or Safe Harbor, does it? A. It says Electric Companies.

Q. It doesn't specify who shall provide the facility, does it? A. I don't find anything except "Electric Companies shall provide——"

Q. So the answer is it doesn't specify. Isn't that right? A. That is right.

Q. Now, was the Number 2 Unit at Safe Harbor—that [10686] is, the 25-cycle single-phase unit we have been referring to—provided under the terms of E, F and G or Exhibit Number 10 which you have just referred to? A. That was provided for under the provisions of Exhibit Number 10.

Q. Now, how about the frequency changer at Safe Harbor? Is that also a facility provided under Exhibit 10, or is it a facility provided under Article V of Item E, page 8, that we referred to? A. That seems to be provided for under Article III of Exhibit 10 also included in the statement "All Generating Transmission Switching Equipment."

Q. Then as I understand your answer, it was not provided under Item E. A. That is right, I believe it was not.

Q. And again Exhibit Number 10 does not specify which of the Electric Companies was to provide the converter equipment at Safe Harbor or any other place, does it? A. It does not.

Q. With respect to these cable circuits that you made reference to as having been provided under Article V of Exhibit E, those weren't just ordinary cable circuits, were they? A. They were cable circuits similar to the shorter run of cable between generator and bus, only this happened [10687] to be a long run.

Q. There was an abnormality in their location, however. Isn't that correct? A. That is true.

Q. That abnormality that I have reference to is a tunnel that was required through a hill back of Safe Harbor hydro plant. Isn't that correct? A. So I understand.

Q. And that tunnel involved some pretty costly work, did it not? A. I believe so.

Q. There was also an elevator involved to the top of the hill. Isn't that right? A. There might be. I never saw it.

[10688] Q. And all those costs were incurred by Safe Harbor, were they not? A. That is right.

. . .

[10694] Q. Well, now, does Penn Water or Susquehanna furnish any energy or capacity services via the Gunpowder line? A. No.

Q. Merely furnishes the facility. Isn't that correct? A. That is all.

Q. And there is no furnishing of energy in connection with the furnishing of those facilities. A. No.

. . .

[10700] Q. Now, I understand your testimony to be in the last few answers, that Exhibit 11 did not change the obligations, whatever they were, under Exhibit 10. Is that correct? [10701] A. I believe you are right.

. . .

[10703] Q. Now, at page 55 of Exhibit 47 in the second paragraph under the heading "Introduction" you say that under H and I Baltimore Company purchases all power and energy available to Holtwood in excess of that delivered in Pennsylvania for the above requirements, and as I understand your statement at [10704] page 55 when you say in excess of that delivered in Pennsylvania for the above requirements, you were referring to the requirements specified in the immediately preceding paragraph. Is that right? A. That is right.

Q. Now, the requirements that you specify in the immediately preceding paragraph are limited to firm power requirements, are they not? A. Yes.

Q. So that your statement as you have it on page 55 in the second paragraph under the heading "Introduction" means, as I understand it, that under H and I Baltimore Company purchases all power and energy available to Holtwood Company in excess of the firm power requirements delivered in Pennsylvania. Is that right? A. Yes.

Q. Now, will you point out to me in what provision of H and I it limits the amount available by reference to the firm power requirements? A. The words used are "In excess of that required to supply other customers", and my interpretation was that only the firm power is a requirement.

Q. Will you refer me to the Article in H and I that you relied upon for that construction? A. That is stated in Article 4, on page 6.

[10705] Q. Well, now, just a moment. Have you finished your answer? A. I was looking for another place, but I haven't found it.

Q. Will you do so, please? A. I don't find any other place right now.

Q. Article 4 on page 6 in Item H is in the contract agreement dated December 31, 1927, is it not? A. That is true.

Q. Now, in your opinion hasn't Article 4 been superseded by the supplement dated June 1, 1931, also included in Item H? A. That is true.

Q. So that Article 4 is no longer applicable. Isn't that right, Mr. Davis? A. I don't know that that is superseded by any other statement of entitlements. I think that still holds that all energy available in excess of requirements of other customers, is the entitlement of Baltimore.

Q. Is it your testimony that Article 4 in Item H is not superseded by Article II of Item H, page 28? A. That is what I was looking for. That seems to be the latest agreement, although—

Q. Well, do you agree with me that Article II, page 28 of Item H has superseded Article 4 on page 6? [10706] A. I believe that is right.

Q. Now, is there anything in Article II, page 28 or 29 which says what you say at page 55 of Exhibit 47? A. This says, "Not otherwise disposed of in performance of now existing contracts".

Q. And that would include energy disposed of under existing contracts for interchange purposes, would it not?

A. My interpretation is that anything in excess of requirements which are obligations of contracts for firm power is at the disposal of Baltimore Company, and is disposed of in these other contracts in accordance with Baltimore's request or approval.

Q. You make that construction in the light of the language in Article II, page 28 and 29 of Exhibit H. Is that right? A. Well, that is part of it.

Q. Well, what other language, then, and when I say "language" I am referring to language in the contract, Item H, now in effect? A. Well, I would make that interpretation also in connection with the statement on page 28 in the middle of the top paragraph.

Q. That is a "Whereas" clause you are referring to, is that right? A. That is right.

[10707] Q. Now, what particular statement in that paragraph do you have reference to now? A. That is in regard to "coordination can be attained and greater economies effected by the sale to Electric of all Power's electric power and energy (including that to be purchased from Safe Harbor) available for such sale."

Q. Well, if the energy is sold to P. P. and L. for example, it isn't available to Baltimore, is it? A. It is sold to P. P. and L. when it can be sold more economically there than it can be used in Baltimore or some other place on the system.

Q. When it is so sold, it isn't available to Baltimore, is it? A. No, that is sold because Baltimore can get more advantage out of it by selling it there than by having it delivered down to the city.

Q. You say Baltimore sells that energy? A. It is sold for the account of Baltimore.

Q. Are you saying that the sales of interchange energy shown on your Table 6, for example, which you label inter-

change transactions by Holtwood, are all transactions for the account of Baltimore?

TRIAL EXAMINER: What table is that?

MR. MYSE: 6, for example, or table 5.

THE WITNESS: Yes, that is what I am saying; that is a sale of Baltimore's entitlements.

[10708] By MR. MYSE:

Q. That isn't what my question was. My question was, are you saying that those sales you show on Table Number 5 and Table Number 6 of Exhibit 47 as Sales by Holtwood or transactions by Holtwood are all transactions for the account of Baltimore? Now, will you answer that question, please? A. Yes.

Q. That is your statement, is it? A. That is right.

Q. Where in these cases are the deliveries made for the account of Baltimore? A. They are made over the northern connections of Holtwood with the northern companies.

Q. Those deliveries are made in Pennsylvania for the account of Baltimore, I take it. A. That is right.

TRIAL EXAMINER: What are you talking about now, these Pennsylvania Water sales to Metropolitan Edison, Pennsylvania Power and Light?

THE WITNESS: Interchange power, yes, not firm.

By MR. MYSE:

Q. Those deliveries are made by whom in each case?

A. Those deliveries are made by Holtwood.

Q. And they are made off the facilities of Holtwood [10709] to the facilities of the various Pennsylvania utilities we have been referring to? A. That is right.

Q. In your opinion do the sales take place at that point? A. Yes.

Q. Who collects the revenues for such sales? A. Holtwood collects it in the first instance.

Q. Who renders the bills for such sales? A. Holtwood renders the bills.

Q. Those sales are all—that is the amount of the sales I take it are all metered in Pennsylvania. A. That is right.

Q. Does Baltimore Company report those sales in its FPC Form 1—

MR. GOLDBERG: Would that be decisive?

MR. MYSE: I am just asking him the question. He seemed to think it was decisive in other connections.

TRIAL EXAMINER: All right.

THE WITNESS: Did you ask a question?

MR. MYSE: Yes. Will you read it back, please?

(Question read.)

By MR. MYSE:

Q. —report for the year 1944? A. No, I believe not.

[10710] Q. Now, you are not saying, are you, that Baltimore is a party to the interchange contracts with the Pennsylvania customers, are you? A. No.

Q. Have you ever found any document any place, anywhere, in which either Penn Water or Baltimore made such a statement—that is, that the sales to the Pennsylvania customers we have been referring to are made for the account of Baltimore? A. I don't know of any.

Q. What did you base your opinion on? A. I based that on the general conditions of contract H and I under which Baltimore pays for all the costs of that energy and outside of the firm obligations that Holtwood has in Pennsylvania, Baltimore has the direction of what shall be done with it, as to where it can be disposed of to the greatest advantage of Baltimore.

Q. Now, in what provision of Item H and I do you find any specification of the authority to Baltimore to make a direction for the disposition of Holtwood or Safe Harbor

energy for that matter? A. Safe Harbor energy is not included in that.

Q. Let's confine it to Holtwood energy then. A. Holtwood energy and its entitlement from Safe Harbor.

[10711] Q. You point out to me, if you can, and I am telling you in advance there is no such provision, but I would like to have you point it out if you can, or whatever provision you relied on in making that statement.

MR. GOLDBERG: You mean you think there isn't, Mr. Myse?

MR. MYSE: I am sorry I was interrupted. May I have the question.

TRIAL EXAMINER: Read the question.

(Question read.)

THE WITNESS: I relied on the condition in contract H and I which places Baltimore in the economic position of being benefited by anything that is done with interchange energy in excess of firm power, and being damaged by anything that is done to decrease the revenue received from it. In other words, it is based on the economic position of the old adage of "Who pays the fiddler has a right to call the tune."

By MR. MYSE:

Q. But I am asking you, Mr. Davis, which specific article are you now referring to when you make those statements? A. The provision of Baltimore paying the entire costs of Holtwood generation plus its power bill from Safe Harbor.

Q. Are you referring to Article III, page 29 of "H" [10712] when you make that statement? A. That is where it starts to specify—

Q. Well, where else? A. Just a continuation of that which specifies all the payments to be made.

Q. Is there anything in Article III that says Baltimore has the authority to direct the disposition of Holtwood

energy? A. No, I get that from the general operating arrangement and conversation with the operating committee.

Q. Who in the operating committee? A. Well, I have talked with Mr. Spaulding and Mr. Greer. That particular information didn't come from Mr. Spaulding.

Q. Did it come from Mr. Greer? A. Mr. Greer in general conversation said that that energy is placed where it will be of the greatest economic advantage to Baltimore Company.

Q. Did Mr. Greer ever tell you that Baltimore had the authority to direct the disposition of Holtwood energy? A. No, that is my translation of it.

Q. Now, where did you get that translation from, other than the statements that you received from Mr. Greer? A. This situation that is presented here in Article III of Contract "H."

[10713] Q. And is that the only article you have reference to in the contract? A. The article which provides for Baltimore Company standing responsible for all the costs of Holtwood Company.

Q. Well, is Article III the only one you have reference to in making that statement? A. I don't have any other in mind right now.

Q. Well, look through the contract and tell me. I think it is very important to find out what you were referring to when you arrived at that conclusion. A. Well, we will let it stand on that article.

Q. That is the only one you had reference to? A. That is all I have in mind at the present time.

Q. Now, Mr. Greer is an employee of Consolidated Gas Electric Light and Power Company of Baltimore, is he not? A. I understand so.

Q. Don't you know? A. I never saw his pay check. I understand he is an officer of Safe Harbor Water Power Corporation and is a member of the organization of Consolidated.

Q. When you say "a member of the organization," you mean an employee? A. That is right.

Q. Well, as a member of the operating committee he represents Baltimore, does he not? [10714] A. I think so.

Q. Don't you know that? A. It is my understanding that he does.

Q. Don't you know it?

MR. GOLDBERG: Mr. Examiner, I submit if the witness states that is his understanding, that is his answer.

THE WITNESS: I have seen his signature on operating committee statements.

By MR. MYSE:

Q. Do you know that signature is as a member of the operating committee on behalf of Baltimore? A. That is the way I understand it.

Q. He certainly doesn't sign any documents presented by the operating committee as an officer of Safe Harbor, does he? A. That title is not attached, no.

Q. In having these conversations with either Mr. Greer or Mr. Spaulding, did either one or both of those gentlemen tell you who did make the operating arrangements for interchange sales? A. I think the direct negotiations are made by Holtwood; that is, the contract with the northern companies is with members of the Holtwood organization.

Q. And Holtwood carries out the arrangement, too, don't they? [10715] A. That is right.

Q. Who actually makes the decision as to what energy will be sold as interchange? A. I think the Holtwood organization does what you might call the determination of when it can be interchanged advantageously one way or the other.

Q. Where does all this energy originate that is sold as interchange to the Pennsylvania customers, do you know?

A. Holtwood and Safe Harbor. Sometimes some will come up from Baltimore.

Q. Do you know how much that latter amount is?

A. It is a very small amount. I don't recall.

Q. What do you understand by the following, what do you understand the meaning to be of the following phrase:

"Electric shall be entitled at all times to all the electrical capacity and energy from time to time available to Power . . . and not otherwise disposed of in performance of now existing contracts, . . ."

A. That was what I had in mind when I said requirements that are obligations of Holtwood to supply power and not voluntary when-as-and-if arrangements of interchange.

MR. MYSE: Let's have the answer, please.

TRIAL EXAMINER: Read the answer.

[10716] (Answer read.)

THE WITNESS: I should add I mean in excess of those firm obligations and not including the interchange.

By MR. MYSE:

Q. Well, as I understand your testimony, then, you construe the phrase "—not otherwise disposed of in performance of now existing contracts" to mean not otherwise disposed of in performance of firm power obligations under now existing contracts. Is that right? A. That is the way I interpreted it.

Q. And you have so interpreted that language in all your studies in this record: Is that right? A. I have used it in that way in the studies.

Q. Now, did you recognize the language I used in my question as the language appearing in Article II of Exhibit "H"? A. That is right.

MR. GOLDBERG: That is not exactly as it appeared in Article II. Is that right, Mr. Myse?

MR. MYSE: You had made the same construction; however, of the language that does appear in Article II of Exhibit "H." Isn't that right?

THE WITNESS: That is correct.

By MR. MYSE:-

Q. Now, if you will refer to page 56 of Exhibit 47 [10717] under the heading "Service to be Performed," sub-paragraph (d) you say "After satisfying its firm power commitments to Pennsylvania Company, Philadelphia Company, York Company and Railroad Company, to place the balance of its available power and energy at the disposal of Baltimore Company," do you not? A. That is right.

Q. And I take it that that language in Exhibit 47 is the result of your construction of Article II of Exhibit "H", page 28 and 29. A. That is the same statement I just made to you as what I interpreted (d) to be.

Q. Now, will you look at page 41, please, of Exhibit 47? Under paragraph (c) you say that the available output of Holtwood is disposed of under a contract for the sale of all the balance of available power and energy to Consolidated, do you not? A. That is right. That is another statement of the same idea.

Q. However, immediately preceding that you pointed out that part of the available output of Holtwood hydro is disposed of under certain interchange contracts. Isn't that right? A. That is right.

Q. Do I understand you to mean now that you would [10718] like to change the statement at page 41, sub-paragraph (c)? A. That balance should include the interchange, that is true.

Q. Then your statement as it appears on page 41 is not correct in your view. Is that right? A. That misconstrues a bit the basis on which I have proceeded, that the interchange is a part of the excess to which Baltimore is entitled.

Q. At least it is inconsistent with the statements I have referred to on page 55 and 56. Isn't that right? A. That statement there should include the interchange in that balance available to Baltimore.

[10719] Q. Now, if as you say, Baltimore is entitled to the balance of energy and capacity available from Holtwood only after firm power commitments in Pennsylvania have been taken care of, that means it is entitled to the balance of all of the energy no matter what the river flow conditions there are. Isn't that right? A. That is true.

Q. So that it isn't just entitled to the balance of the energy under average riverflow conditions? A. It is entitled to the balance as it comes.

Q. Well, my statement is correct, that it is not entitled to only the balance under average riverflow conditions, is it not? A. Oh, it is entitled to the balance each year whatever the flow produces.

Q. And if the riverflow for a particular year is in excess of average over a thirty-year period, they are entitled, as I understand your testimony, to the energy which is the balance available even though that amount of energy is in excess of the energy which would be produced under average riverflow conditions. Isn't that right? A. Yes.

Q. And the same thing is true with respect to capacity available after firm commitments have been met up in Pennsylvania if you are right in your construction. Isn't that right? [10720] A. That is right.

[10724] Q. Yesterday I asked you certain questions with respect to 73, 74 and 75, which is the Coatesville contract, and at page 10548, lines 13 to 15 in response to a question by the Trial Examiner you stated that "As an engineering and operating matter, Safe Harbor has no physical ability to do anything under this contract", and I take it you were referring to the contract identified in these proceedings as Exhibit 73, 74 and 75. Is that right? A. Yes.

Q. Now, as a matter of fact, Holtwood has substantial generating facilities, does it not? A. Yes.

Q. And Safe Harbor has substantial generating facilities? A. That is true.

Q. From which facilities are available a substantial amount of energy and capacity and other services. Isn't that correct? A. That is true.

Q. And there is a transmission line connecting the Safe Harbor plant with the bus bar facilities at the Holtwood plant, is there not? [10725] A. That is right.

Q. And there is another transmission line running from the bus bar in the Holtwood plant to the Philadelphia Electric Company area at Coatesville, Pennsylvania, is there not? A. That is right.

Q. Now, given those generating facilities at Safe Harbor connected to the area of the Philadelphia Electric Company system at Coatesville, Pennsylvania, by a transmission line, do you still say that Safe Harbor has no physical ability to generate energy and have that energy delivered to Philadelphia Electric Company at Coatesville?

MR. GOLDBERG: Is this a hypothetical question you are putting to the witness?

MR. MYSE: No.

THE WITNESS: Certainly it has physical ability to generate energy, but that is all.

By MR. MYSE:

Q. Does it have physical ability to generate that energy and have it delivered to Coatesville? A. No.⁵

Q. It has no physical ability. Why do you say that? A. Because it has no transmission line to get it there.

Q. So, as I understand your testimony, Safe Harbor has no physical ability to do anything under contracts 73, 74 [10726] and 75 because it has no transmission line which it owns to get the energy there. Is that it?

MR. GOLDBERG: Just a minute.

Is that question asking him if that is what he meant by his answer at lines 13 to 15 of transcript 10548?

MR. MYSE: Read the question. I think you misconstrued it.

TRIAL EXAMINER: Read the question.

(Question read.)

MR. GOLDBERG: In other words, the question as I understand it, Mr. Examiner, refers to the questions and answers just had this afternoon and not to the answer given on transcript 10548.

MR. MYSE: Well, Mr. Goldberg can construe it any way he wants. I think my question is clear.

TRIAL EXAMINER: All right. You may answer the question, Mr. Witness.

THE WITNESS: As an engineering and operating matter, Safe Harbor has no physical ability to do anything under the Coatesville contract because, first, it has no transmission line, and second, it has no energy after it leaves the plant to deliver. It is sold before it goes through the transformers at Safe Harbor.

By MR. MYSE:

Q. Well, the amount of energy that it has left after [10727] whatever sales you had reference to has nothing to do with physical ability, does it?

TRIAL EXAMINER: I think you are arguing with the witness now.

MR. MYSE: I would like to understand what he meant by physical ability.

TRIAL EXAMINER: I think it is clear. I will rule the question out.

. . .

Q. Now, what provision of the contracts in these proceedings if any do you base that latter statement on, that is namely, it has no energy to be sold after it leaves the transformers at Safe Harbor?

MR. GOLDBERG: I think it is repetitious, Mr. Examiner. All we have got to do is look at transcript 10548, and the preceding answer at the bottom of 10547 which precedes that answer on 10548.

MR. MYSE: I don't see any place where I asked this question.

MR. GOLDBERG: It is the same subject matter.

MR. MYSE: That may be true, but this is a different question.

[10728] MR. GOLDBERG: You use new words—

TRIAL EXAMINER: Just a minute.

MR. GOLDBERG: That doesn't make it less repetitious.

The answer I refer to begins at line 22 on page 10547.

MR. MYSE: Mr. Examiner, I must object to that kind of interjection by Commission counsel. I think it is highly unwarranted in the middle of my cross-examination.

TRIAL EXAMINER: All right.

Just let me have a chance to read it, please.

Read the question.

(Question read.)

TRIAL EXAMINER: I don't agree counsel is repetitious on the basis of what has been said on pages 10547 and 10548, but I do think it is repetitious on the basis of all the testimony.

MR. MYSE: I haven't even begun to ask him about the Safe Harbor contract if that is what he had reference to.

TRIAL EXAMINER: The question taken in its present place in the cross-examination is ruled out.

By MR. MYSE:

Q. Mr. Davis, did you have any reference to the contract E, F and G, Article II or Article III in making the

statements you made this afternoon with respect to the ability of Safe Harbor to perform physical operations in connection with the contract, Exhibits 73, 74 and 75?

[10729] MR. GOLDBERG: Roman II and III of "E". Is that it?

THE WITNESS: Did you name another Article—besides Article II in E—

MR. MYSE: II and III.

THE WITNESS: Well, those are the articles that I rely on for saying that Safe Harbor has no energy after it leaves the plant. As soon as it strikes the transformers, it belongs to Holtwood, and Holtwood has the transmission line. It belongs to either Holtwood or Baltimore, and Holtwood has the only means of delivering it from Safe Harbor to Coatesville.

TRIAL EXAMINER: Now, I think the fact that counsel—just a minute.

Read me the first part of the answer.

(Answer read.)

TRIAL EXAMINER: I think the fact that counsel was able to name the provisions which he appeared to be confident the witness would affirm as those upon which he would base his answer to that question, sustains the Examiner's previous ruling. The question could only lead to repetitious testimony.

MR. MYSE: I want to say to the Examiner that I wasn't confident and I am still not confident that those are the only provisions, and I want to pin him down to that.

TRIAL EXAMINER: You may not be confident, counsel, but the Examiner is.

By MR. MYSE:

[10730] Q. Now, the construction of Article II of Exhibit—or Item E that you have just referred to—is basic to all your studies in this record, is it not? A. That is right.

[10738] Q. Well, you may correct any statement you made immediately prior to the recess as far as I am concerned.

A. You asked me under what contract the energy from Baltimore to Safe Harbor over the 220 kv lines was sold to Holtwood. I answered wrongly, E, F and G. It has nothing to do with that contract. It is sold under H and I.

Q. As a matter of fact, you answered E, F and G twice in your answer, did you not? A. I might have, but H and I is the right answer.

Q. Now, what provision under H and I do you now have reference to? A. Article 6 provides for supply of backfeed.

Q. That is Article 6 of Item "H"? A. That is right.

Q. Now, is there any other Article in any of the contracts that you know of which covers the purchase by either Holtwood or Safe Harbor of backfeed or any other energy from Baltimore? A. There is no provision for any purchase of anything by Safe Harbor. I have nothing in mind about another provision for the purchase by Holtwood from Baltimore.

Q. You say you have nothing in mind. The fact is, there isn't any. [10739] A. I don't know of anything.

Q. Now, Article 6 of Item "H", page 9, is also included in the contract dated December 31, 1927. Is that right? A. Article 6 is in the 1927 contract.

Q. And do I understand your testimony to be that you are of the opinion that Article 6 is still in effect? A. Yes, that is my opinion.

Q. Now, Article 6, however, provides only for the purchase of steam-generated energy, does it not? A. That is right.

Q. And it provides for the purchase of such steam-generated energy from Baltimore on a daily net basis, does it not? A. That is right.

. . .

[10781] Q. Now, at page 1170 of the transcript of the direct testimony—1170 through 1172—you testified with respect to certain sources of basic data, instructions as to method in presenting your Exhibit Number 64, did you not?

A. Is that the transcript for yesterday?

Q. No, sir, that is back under your direct testimony, a long, long time ago. A. Oh, 1170, not 11,000. Did you ask a question?

Q. Yes, will you read it, please?

(Question was read.)

THE WITNESS: That is generally my statement of the sources of my information.

By MR. MYSE:

Q. Well, do I understand from your testimony at those pages that you assume no responsibility for the accuracy of the basic data? [10782] A. That is right.

[10783] Q. Now, also at 1171 you stated that you consulted Mr. R. T. Greer of the Baltimore Company. A. That is right.

Q. And then you go on to say that he is in charge of the operations of the interconnected system. Now, what [10784] interconnected system did you there have reference to? A. Baltimore, Holtwood and Safe Harbor.

Q. Do you mean to say that Mr. Greer is in charge of the operations of Holtwood Company? A. He is a member of the committee that handled the interconnection, and for his company he is in charge, as I understand it, of the interconnection arrangements.

Q. Well, does that mean to you that Mr. Greer is in charge of the operations of Holtwood Company? A. No.

[10785] Q. Is that the only subject matter that you conferred with employees of Baltimore Company on in connection with your Exhibit 64? A. I believe that is right.

Q. What other employees other than Mr. Greer did you confer with? A. None other than Mr. Greer before the preparation of Exhibit 64.

Q. How about after the preparation of Exhibit 64?

A. My conferences after that, Mr. Gibbs, Mr. Thomas and Mr. Greer.

Q. When you say Mr. Thomas, you mean Mr. Ralph L. Thomas? A. That is right.

Q. Were the subjects of those conferences related solely to capacity value or dependable capacity? A. Oh, the general subject of handling the energy in excess of the firm power requirements came into the conversation.

* * *

[10787] Q. Did you use any data from the 1944 Form 12 report filed with the Federal Power Commission by Consolidated Gas Electric Light and Power Company of Baltimore? A. We used the peak loads of the Pennsylvania customers at the time of the system peak. That was the only place we found those reported.

Q. Is that the only place you found that data and relied upon it for your Exhibit 64? A. Yes. The peaks of the Holtwood-Safe Harbor system peak were at another time, and were not used.

* * *

[10804] Q. Now, as I understand your testimony at page 1170, lines 5 to 9 inclusive, you there attempted to state the general purpose of your Exhibit 64. Is that right? A. That is right.

Q. And as I understand that testimony, that purpose is to determine all costs associated with the rendering of a particular service or group of services to a particular customer to compare those allocated costs with the charges collected for the service or services which are involved.

[10805] Isn't that right? A. I don't find those words in that answer.

Q. Well, will you tell me whether that is your purpose and my understanding of your testimony? A. The purpose was to make an analysis of capital costs, operating expenses, all other costs of Holtwood and Susquehanna Companies, and to allocate those to the service furnished to various customers.

Q. Well, my question is, however, is my statement of your purpose correct or not, and I assume you would like to have it read back now. Would you? A. Yes.

TRIAL EXAMINER: Read the question.

(Question read.)

By MR. MYSE:

Q. Isn't that a correct statement, Mr. Davis? A. May I ask what you mean by a group of services?

Q. Well, for example, in the case of Edison Light and Power Company there were a number of different kinds of services involved, and that is what I had reference to when I said "group of services." A. If I recall those kinds of services, they were merely conditions of the delivery of electric power and energy. I did not segregate any of those conditions. I did not separate the cost to apply it to any of those conditions. [10806] My cost analysis was based on the amount of power and energy delivered, and the costs include all such things as facilities for the delivery, facilities for furnishing reactive current whenever it was furnished, and furnish other conditions necessary to deliver power and energy in the form the customer required to put to beneficial use.

Q. Now, with that understanding of the meaning of group of services, will you now tell me whether my statement of your purpose is correct or not, and if you would like to have it read back, I assume the Examiner will allow it. A. No. The group of services that you speak of are not separated in any allocation that I have made except where isolated costs for a transmission line, or some facility that is isolated, there is no other separation of any

group of services. The rest of it is delivery of power and energy.

Q. All right, Mr. Davis, but with that understanding will you tell me whether my statement of your purpose is correct or not? A. If you consider my statement equal to yours, it is, but I can't translate it into your terms.

Q. When you say your statement is equal to mine, you mean your statement defines group of services as I used it. Is that what you mean? A. Well, if you think my statement does apply to [10807] group of services as you used it, then your statement is correct.

* * *

Q. From your knowledge of the operations of the Safe Harbor and Holtwood developments, would you say that they are operated as a unit? A. They are operated like two power plants in the system.

Q. Well, wouldn't you say that the way these particular power plants are operated that they are operated as a unit? A. You mean as if they were all in one location and building?

Q. Yes. A. They are operated that way so far as the operation of the plants go.

Q. That is all I asked you about, Mr. Davis. Isn't that right? A. As far as the operation of the plants go.

* * *

[10813] Q. Mr. Davis, as I understand the purpose of your exhibit 64, it was to determine only the cost incurred by Penn Water in rendering whatever services it rendered to its several customers. Is that right? A. That is right.

Q. So that there are no costs included in your Exhibit 64 incurred by Safe Harbor except those costs which may be covered by the payment that Penn Water makes to Safe Harbor under item E, F and G. Isn't that right? A. That is right, one-third of Safe Harbor's total costs.

Q. Now, as I understand it, that payment by Penn Water to Safe Harbor we have just referred to was neither

intended to nor does it cover any of the costs of Safe Harbor incurred by Safe Harbor for any of the services rendered to the railroad [10814] in Maryland. Isn't that right? A. I have so treated it.

Q. Well, isn't my statement correct? A. I think so.

Q. However, you have included in your exhibit 64, have you not, certain costs incurred by Baltimore Company in connection with the rendering of backfeed service under the contract identified in this exhibit as item H and I. Isn't that right? A. That is right.

* * *

[10846] Q. So that the maximum steam capacity required on the Holtwood Safe Harbor system occurs throughout the year. Isn't that right? A. That is not a clear way to put it.

Q. Well, is my statement correct or not? A. Not exactly. Maximum steam requirement to carry the [10847] load is what I defined as the critical period. Holtwood-Safe Harbor system turns out what it can, and any excess goes into another system, and they have no peak for which they are specifically responsible.

Q. You mean they have no firm power obligations. A. Yes, they have some firm power obligations, but they don't stand alone responsible for them.

Q. Well, who else is responsible for supplying the peaks under those firm power obligations? A. Baltimore Company is standing back of the peaks on those firm power obligations.

Q. And you say that despite the fact that Baltimore isn't obligated at all under the contracts which created those peaks. Is that right? A. That statement is based on the relative economic condition that is the result of the application of contract identified as H and I, under which in effect the entire output of the Holtwood system is sold for the account of Baltimore. Baltimore gets all of the revenue from it, pays all of the costs, and in effect its

economic effect is the same as if Baltimore were leasing that plant.

Q. Did I understand you to say, Mr. Davis, that you are now saying that all of the output of Holtwood and Safe Harbor is sold for the account of Baltimore? A. Practically, in economic effect, and the coming back [10848] to the responsibility for the peak loads of the Pennsylvania customers, if those loads are defaulted on, and the service is not supplied, it makes no difference to Holtwood's income or financial position. It makes no difference to the financial position of any other company, but Baltimore is the only one that is hurt, and it would be just as damaging for Baltimore to allow those loads to be defaulted on as any other load in the Baltimore area, down in the city of Baltimore.

Q. Mr. Davis, will you point specifically to any provisions in item H or I upon which you rely for making the statement you have just made with respect to the sale of all of the Holtwood and Safe Harbor output for the account of Baltimore? I would like to have you be more specific if you can with respect to the provisions in the contract.

A. I think you understood what I said, that the general economic position in which Holtwood and Baltimore are placed by the application of all the provisions of the contract identified as H and I, wherein Baltimore pays all the costs, gets all the revenue from all of the power that is sold, and in economic effect all of the output is sold for Baltimore's account and so credited.

Q. Well, then, do I understand your answer to be that you cannot be more specific other than to point to the entire contents of the contract? Is that right?

[10849] THE WITNESS: That is right.

[10858] Q. Now, of course the water storage at the Holtwood and Safe Harbor sites may be regulated on a greater

than a weekly cycle. Isn't that correct? A. That is done in case of emergency, and that is the extra capacity that is figured for additional draw-down. Dependable capacity is first figured on the regular weekly recovery schedule.

Q. Well, isn't it a fact that the operation of those hydro plants at those two sites may be operated on a seasonal [10859] draw-down basis? A. You don't have seasonal storage.

Q. Well, are you saying that they can't be operated on a seasonal drawn-down basis? A. They are not what you call storage plants on a seasonal basis. They are run-of-river plants. They can operate on storage for a period of a week, probably.

Q. Now, as I understood it, you said normal operation was on a weekly re-fill basis. Is that right? A. That is right.

Q. Is there any reason why they can't be operated on the basis of draw-down in a series of weeks? A. Oh, they would be in case of emergency. That is how the pondage is used. If they had a serious outage at some other place, they can draw the pond down to a point beyond any possibility of refilling at the beginning of the next week, but sooner or later they have to back off, and the storage capacity or the dependable capacity that has been figured on a weekly refill will not be there unless the river flow comes up.

Q. Well, do you know whether or not the riverflow conditions on the Susquehanna are such that the Holtwood and Safe Harbor hydro plants can be operated on a weekly cycle with a series of draw-downs, and then gradually bringing the water level up again? [10860] A. That probably is done, taking the chance that the riverflow will increase. If it doesn't you have got to back off and carry the load with steam.

Q. In order to do that, you have to know the probabilities of riverflow, do you not? A. Well, that is true. You take a chance on it.

Q. Do you know whether or not there is any increased generation at the Conowingo hydro plant which is available to the Penn Water and Safe Harbor system when you have increased draw-down at Safe Harbor and Holtwood? A. Of course any increase in the draw-down delivers that much more water to the Conowingo plant.

Q. I understand that, but if that water is used for the generation of energy, is it available to Penn Water and Safe Harbor system? A. On a "When, as and if" basis, it might be. There is no commitment to supply it except the general agreement to furnish emergency service and to coordinate.

Q. But under those conditions, it would be available to the Penn Water-Safe Harbor system? A. It would be available if they had it to spare.

Q. You might plan it that way. Isn't that right? A. As far as system planning, if you mean installing additional capacity, as I understand it those plans are for the requirements of their own system and they do nothing that [10861] gives any assurance that they are going to have it available for Holtwood, Safe Harbor or Baltimore. If they have it, they are willing to furnish it.

Q. Are you saying that Safe Harbor, Holtwood and Philadelphia Electric, at its Conowingo plant, never plan to utilize the energy in coordinated operation between the systems which arises out of increased draw-down at the Safe Harbor and Holtwood operations?

MR. GOLDBERG: May I have that, please?

THE WITNESS: I didn't say that.

TRIAL EXAMINER: Yes.

(Question read).

By MR. MYSE:

Q. Do you know whether or not they do make such plans? A. No, I don't know.

Q. Do you think that this is a fair statement, Mr. Davis: A run-of-river-plant refers to those plants whose

operations can't be regulated over a period of more than a few hours, either from storage at site or above, but whose operation is in general controlled by the volume of flow which must be utilized as it occurs or be wasted?

MR. GOLDBERG: A fair statement as a general definition or applied specially?

MR. MYSE: As a general definition.

THE WITNESS: As that term is generally used, a period of [10862] a few hours is much more restrictive than you would ordinarily find.

Q. You don't agree with that statement, then. A. That is rather narrowly confined, more so than the term is generally used. I don't agree with that as a general use of the term.

Q. Now, it is a fact, however, that the operation of the Safe Harbor and Holtwood plants can be regulated over a period of more than a few hours. Isn't that right? A. That is true.

Q. And their operation is not in general controlled by the volume of flow in the Susquehanna River which must be utilized as it occurs or be wasted? A. Pretty close to that. In March, April and May they would probably like to use more of it, but they can't, so it is wasted.

Q. That is during the high-flow months. A. That is right.

[10863] Q. Do you mean to say by that that if the load that the Holtwood-Safe Harbor plants actually serve is a sharp load that it would not have more dependable capacity available from their operations than if it was a flat load, so to speak? A. Oh, surely, but that is what I gave you in my previous answer, that there is no load that is specifically a Holtwood-Safe Harbor load. It is theirs when they can carry it. It is someone else's when they can't.

Q. Certainly they have a load commitment to the Pennsylvania customers, do they not? A. They have a com-

mitment, but they couldn't keep the [10864] commitment if they didn't have help.

Q. They could get that help from the Pennsylvania customers themselves, could they not? A. They could if they had it to spare, but they don't do anything to assure that they will have it.

* * *

[10865] Q. Are you saying that if there were no interchange contracts with the Pennsylvania customers, that that would have no effect on a determination of dependable capacity for the Holtwood and Safe Harbor systems? A. It might be given some consideration, but I don't believe so because it would simply mean that while off-peak capacity in Baltimore is there already, it might be cheaper to get it from Pennsylvania, and it would be gotten there. If it was more expensive than the energy from Baltimore, then Baltimore would furnish it under the present method of operation.

* * *

[10870] Q. As I understand your Exhibit 64, you used what is termed non-coincident peak method of allocating demand costs. Isn't that right? A. That is right.

Q. There are other methods of allocating demand costs. Isn't that true? A. Yes, there are a number of methods of allocating demand costs.

Q. Well, one other method is the coincident peak method, or what is commonly referred to as the peak responsibility method. Isn't that right? A. That is another method, yes.

Q. Now, the non-coincident peak method which you used requires the determination of the maximum non-coincident demands of all the customers. A. That is right.

Q. And it assumes that the costs associated with the different demands of each customer are in proportion to the ratios of the maximum demands of each customer to the [10871] total of the non-coincident maximum demands of all the customers. A. That is right.

Q. And that is an assumption, isn't it? A. Well, that is the way they are allocated in Exhibit 64.

Q. But that is an assumption, isn't it? A. That they are proportionate?

Q. Yes. A. That is right.

Q. Have you made any study in this case for the purpose of Exhibit 64 or otherwise to determine whether or not the costs of Holtwood do vary in proportion to ratios of the maximum demands of each customer to the total of the non-coincident demands of all the customers? A. No, I have made no special study on that.

[10874] Q. Now, isn't it true, Mr. Davis, in using the non-coincident peak method as you have in Exhibit 64, the peak demands of the various customers that are used in that method should be on the same basis? Isn't that right? That is, they should be measured on the same basis. A. Oh, you mean whether they are one hour or thirty minutes?

Q. That is right. A. Surely, that is true.

[10924]

SAMUEL JOSEPH

CROSS EXAMINATION (continued)

By MR. SPARKS:

[10954] Q. What is the significance and meaning of the earnings-price ratios shown in the last column of page 40 of Exhibit 46 for the purpose of the determination of the fair rate of return to Penn Water? A. Here we have a list of all of the common stocks of electric operating utilities offered to the public during the period 1935 to 1945. The last column shows the earnings-price ratio as at the time of the offer. Looking at that column and having in mind a certain cost that the utility bears, you have a view of cost of capital on common stocks to these utilities.

This, then, combined with the information [10955] shown at pages 38 and 38-A would give you an idea of what rate should be allowed on the equity of Pennsylvania Water and Power in a rate proceeding.

Q. How would you get an idea of what should be allowed, Mr. Joseph, in that respect by examining the earnings offering price ratio shown in the last column of page 40? A. Well, your own mental processes would determine that. You are interested in finding out what is fair to allow for Penn Water. Well, you say, in accordance with the Bluefield case and in accordance with the theory generally, "We will allow what investors seem to be requiring." You look at page 40 and pages 38 and 38-A, make up your mind as best you can what that requirement is.

* * *

[10960] Q. What companies on page 40 of Exhibit 46 are companies comparable to Penn Water so far as risks and uncertainties are concerned as that latter term is used in the Bluefield case? A. All of them.

Q. Didn't I just ask you a few minutes ago if all of the companies on page 40 are comparable to Penn Water so far as risks and uncertainties are concerned, and didn't you say [10961] "No"? A. Well, if I did, I should have changed that answer. We are dealing with this problem: You have to select data from amongst all of the data available on companies whose risks are comparable to Penn Water. You do that by dealing with operating electric utility companies. That is my understanding of one way of selecting companies of comparable risks.

Now, having selected companies of comparable risks your question is, are these companies within that selection very close to, or have the same characteristic of Penn Water. I say there are differences, certainly. Penn Water is a hydro company. Perhaps none of these companies has a major operation as a hydro-electric company.

Q. All right. Now— A. I hope that explains the apparent inconsistency. You can't say these companies are

similar or dissimilar, however you approach the problem. They are similar in my view under the definition of the Bluefield case.

Q. What do you mean "similar in your view", Mr. Joseph, within the meaning of the Bluefield case, as to corresponding or comparable risks, and uncertainties?

A. Well, I mean this: If I had selected for page 40 statistics on brewery companies, let us say, then I think there would be a very definite argument as to whether the Supreme Court meant by "comparable risks" to compare a brewery [10962] with a hydro-electric plant. But when I select operating electric utility companies, and include therein all of the information which is available, attempting thereby to refrain from any personal judgment as to the figures which should be included, then I have met the requirement of the Bluefield case.

Q. Let's see if I understand what you are saying, Mr. Joseph. That is, you construe the Bluefield decision where it refers to investments in companies having corresponding or comparable risks and uncertainties to be satisfied in a presentation for determination of a fair rate of return if that presentation includes companies merely of the same industrial class. Is that correct? A. Same general class, yes, sir.

Q. In other words, the fact that all of these companies on page 40 are electric operating utilities is sufficient in your judgment to meet the requirement of the Bluefield decision so far as comparable risks and uncertainties are concerned. Is that correct? A. Yes.

Q. And in your view you need make no other investigation of any of these companies to determine comparability other than to determine that they are electric operating companies. Is that correct? A. I think that is correct. yes.

[11091]

GEORGE H. DAVIS

CROSS-EXAMINATION (Continued)

By MR. MYSE:

Q. You may recall, Mr. Davis, that Friday evening we were discussing the variations in demands made by the various Pennsylvania customers on the Holtwood-Safe Harbor [11092] system, do you not? A. That is right.

Q. Now, what do you understand by the term of "diversity" between demands? A. Demands that do not occur at the same time.

Q. Well, if demands of two customers had greater diversity than the demands of two other customers, what would you understand by that situation? A. I would understand that the two customers having greater diversity, there would be a greater difference between the sum of their individual maximum demands and the simultaneous demands of the two.

Q. And that would occur if there was a wide divergence between the times of the maximum demands of the two customers as compared to the divergence in the time of the second set of two customers. Is that right? A. A greater difference between the maximum demands of each customer and the demand that it happened to have at the time when there was a coincident maximum.

Q. Now, it is possible, is it not, that the diversity between peak demands of various customers may change from time to time? A. It usually does.

Q. And it is also possible that the diversity between the demands of the customers on the Holtwood-Safe [11093] Harbor system would change as between the year 1944, 1945 and 1946. Isn't that right? A. It probably did.

Q. And what that means is that the sum of the coincident demands probably changed as between the years 1944, '45 and '46. Isn't that right? A. Without doubt it did.

Q. That also means, does it not, that you would have a consequent change in the unit costs of capacity, for example. Is that right? A. That is true, as I figured the unit cost based on the sum of the individual maximum demands.

Q. Now, the other day we mentioned one other method of determining cost to be allocated between customers in the case where you have facilities used jointly for various customers, that was the peak responsibility method. Isn't that correct? A. That is true.

Q. Now, that method assumes that the costs associated with the demands of each customer are in proportion to the ratios of the coincident demands of each customer at the time of the maximum peak demands on the system to the total maximum peak demand on the system. Isn't that right? Would you like to have that read back? A. I think that was a little twisted up there.

[11094] TRIAL EXAMINER: Read the question.

(Question read.)

THE WITNESS: Under the method of peak responsibility, the capacity costs are allocated on the ratio of each customer's demand at the time of system peak to the total coincident system peak.

MR. MYSE: Well, that is what I intended to say. Now, will you have my question read back and see whether or not you agree with it?

TRIAL EXAMINER: I don't see the necessity of reading the question back if that is what was meant.

MR. MYSE: I want to see if there is any divergence between what I asked and what the witness stated.

TRIAL EXAMINER: You will have the transcript available.

MR. MYSE: May I have the witness' last answer read back, then?

TRIAL EXAMINER: Yes.

(Answer read.)

By MR. MYSE:

Q. Well, that means, does it not, that the peak responsibility method assumes that the costs associated with the demands of each customer are in the same ratio as the ratio of each customer's demand to the total demand at the time of system peak? [11095] A. That is right.

Q. However, that assumption isn't always valid, is it? A. No, I don't think it is. That is, the assumption that the costs are associated with the ratios of individual peaks to simultaneous peak at that particular hour. There are too many variations that come in there.

Q. Do you agree with this statement, Mr. Davis: The system capacity and the use of that capacity during the most severe operating conditions and on the coincidental system peak day are the important conditions which influence demand costs? A. Yes, I think that is generally true.

Q. Do you think that statement is applicable to this proceeding in determining allocation of costs of Holtwood?

A. In other words, you are asking whether I think the peak responsibility method should be applied to this case?

Q. I didn't ask you that. I asked you whether that statement which you say is generally true should be applied to this case. A. As I understood your statement, it was that the system peak demand is the important thing in determining capacity costs.

[11096] Q. Well, will you read back my statement. I don't think you have stated it exactly the way I have.

TRIAL EXAMINER: Yes.

(Statement read.)

THE WITNESS: Yes.

[11100] Q. Now, as I understand your Exhibit 64, you allocated hydro production costs associated with installed capacity which was in excess of the dependable capacity which you used for December of 1944, and classified those costs as energy costs? A. That is right.

Q. Well, who makes use of that energy created by the capacity available in excess of the dependable capacity in December? A. Oh, that is used by all customers just the same as any other energy.

Q. Well, at 1195, lines 7 through 13, you point out there it is the larger load during these periods of high river flow that constitutes the use of what you call the excess installed capacity to produce the greatest practicable amount of energy from the available water. Do you not? A. That is right.

[11101] Q. Now, since that was in answer to what should appear as a question at line 5, but actually appears as an answer, as I understand that testimony you were relating that larger load to the load delivered to Baltimore. Is that right? A. Well, more of that load goes to Baltimore, more of that energy goes to Baltimore during periods of high river flow, of course.

Q. Well, does any of it go to the Pennsylvania customers? A. It might. It goes wherever it can be used to the best advantage.

Q. Are you referring now to interchange transactions? A. That is right.

Q. You are not referring to firm power transactions? A. It could go to the firm power loads. You can't control where any particular energy goes.

Q. But I say that most of it goes to Baltimore. Is that right? A. I said more of it goes to Baltimore, more of the energy generated at the hydro plants goes to Baltimore during periods of high river flow.

[11104] Q. Well, now, as I understand your Table I, that is Roman I of Exhibit 64, the purpose of that table was to

show the assignment of Penn Water or Holtwood and Susquehanna costs associated with facilities used primarily for the service to one or more customers directly to the customers for whose service they are used. Isn't that right? A. That is right, together with the balance shown in a pool for later allocation.

Q. Well, I was going to get to that, Mr. Davis. A. Oh, excuse me.

Q. And that Table I also shows, as I understand you now, the assignment of whatever costs you thought proper to assign associated with facilities which were used jointly by all customers and you assigned those costs to a pool. Isn't that right? A. That is right.

Q. And that means, as I understand your testimony in support of the exhibit, that all of the items included in what you call pool costs are costs associated with facilities used by all of the customers in varying amounts. Isn't that right? A. That is the way they were considered, yes.

[11105] Q. And that was your assumption? A. That is right.

Q. And you assumed the entire production plant at Holtwood, since you assigned it as a pool cost, was used for service to all customers of Penn Water. Is that right? A. That is right.

Q. Now, actually, the production equipment at Holtwood consists of basically two classes of equipment, that is, 25-cycle and 60-cycle generating equipment and steam 60-cycle generating equipment? A. That is true.

Q. You separated the steam and the hydro, did you not? A. Proper operating costs, yes, and in allocating costs from the pool I separated steam from hydro.

Q. Well, your Table I shows them separately and that was intended to show all of the costs associated with the steam production plant separate from the hydro production plant. Isn't that right? A. That is right.

Q. Now, you also show some \$15,847,486 worth of equipment as hydro production plant assigned entirely to the pool. Isn't that right? A. That is right.

[11106] Q. And that hydro production plant that you there show consists largely of the generating units and associated equipment used for the production of energy capacity and other electrical services. Isn't that right? A. That is right.

Q. Now, eight out of the ten main generators are 25-cycle generators, aren't they? A. That is right.

Q. And they are used largely for service to Baltimore, are they not? A. That is true, except for a small amount which might go through a frequency changer.

Q. They are not used for service to Coatesville, are they? A. You could hardly find a significant amount of that power probably getting to Coatesville.

Q. Well, except for that insignificant amount they are not used for service to Coatesville? A. That is right.

Q. And they are not used for service to Metropolitan Edison Company, in 1946, or were they used for service to Edison Light and Power Company or Metropolitan Edison Company or both in 1944? A. Those units were not, no.

Q. I supposed you would say that Pennsylvania Power [11107] and Light Company did use those 25-cycle units to a minor extent in the year 1944. Isn't that right? A. That is true. They used some 25-cycle power.

Q. Now, it is clear, is it not, that so far as those eight out of the ten main generating units at Holtwood are concerned, they are not used by all other customers, are they? A. That is true.

Q. So to the extent you have those eight out of ten generating units and all the associated costs that go with it included in your hydro production plant as a pool cost, you are a little bit inconsistent, are you not? A. Those costs are allocated to the various customers on the basis of use, and this generating cost, production plant, is put in the pool here because I have made no distinction as between the cost of 60-cycle power and 25-cycle power at Holtwood, so that in the allocation later on some customer using 60-cycle power only gets an allocation from these

costs on the basis of his total use, which is a combination cost of 25 and 60-cycle, and I didn't consider that any particular injustice was done to the customer by allocating on that basis.

Q. Well, certainly you can't say that the 25-cycle generating units at Holtwood which consist of eight out of the ten are used jointly for service to all the customers, [11108] can you? A. The whole plant is used jointly—

Q. I didn't ask you about the whole plant.

TRIAL EXAMINER: Answer the question.

MR. GOLDBERG: Mr. Examiner—

TRIAL EXAMINER: Just a minute, it is clear. Read the question.

MR. GOLDBERG: I was merely going to request that the witness be able to complete his explanation.

TRIAL EXAMINER: It isn't necessary. Read the question.

(Question read.)

THE WITNESS: I told you I lumped those eight generating units in the rest of the plant and allocated the plant as a whole.

MR. MYSE: I submit, Mr. Examiner, that is not an answer to my question.

TRIAL EXAMINER: Answer the question.

THE WITNESS: I have not segregated the costs to allocate to any customer.

By MR. MYSE:

Q. I still don't think that is an answer, but you can't say, can you, that the 25-cycle generating units at Holtwood are used jointly for service to all customers, can you? A. Saying that those particular units can't be [11109] assigned specifically to customers using only 60-cycle power doesn't change my former answer.

Q. Well, will you answer my question, please, Mr. Davis? A. I will say that specifically if I picked out those eight units, I couldn't assign a portion of their use to a 60-cycle customer.

Q. You would have had to assign almost all of their use to Baltimore Company, would you not? A. That is right.

Q. And that means you would have had to assign all the costs associated with the generation of those eight out of ten units, would you not? A. That is true. That wouldn't have changed my result except as 60-cycle power might be a different cost from 25-cycle, and I don't think there is a difference.

MR. MYSE: Mr. Examiner, I move to strike the answer after the words "and that would not have changed my result." That is not responsive.

TRIAL EXAMINER: I won't strike it, but I instruct the witness not to volunteer, but simply answer the questions.

By MR. MYSE:

Q. Now, I think a few days back you agreed with me that there were seven out of nine, at least seven out of [11119] nine, 25-cycle transformers at Holtwood substation used exclusively for Baltimore. A. Those go in the same category as the generators.

Q. Now, the fact is that you have included the costs associated with the Holtwood substation equipment in line 22 of Table I of your Exhibit 64 and assigned all of such costs to pool, have you not? A. What line did you say?

Q. 22. A. That is right.

Q. And the fact is at least those seven are not used jointly for all customers. Isn't that right? A. They are in the same category as the generators.

Q. And the remaining two if they are used jointly at all are used jointly for service to P.P. and L. and Baltimore. Isn't that right? A. That is right.

Q. As I understand it, however, you did assign some of the 25-cycle facilities owned by Holtwood or Susquehanna direct to Baltimore, did you not? A. The Highlandtown Substation, you mean?

Q. I think that is one of them, is it not? A. That is right.

Q. And the Highlandtown line itself. Isn't that another one? [11111] A. That is right.

Q. Now, at lines 7 and 8 of Table I of Exhibit 64 you show that you assigned the 220 kv lines known as the Westport and the Riverside Line, two-thirds to Baltimore and one-third to pool. Isn't that right? A. That is right.

Q. And as I understand your testimony at pages 1176 to 7, you did that largely on the basis of the transmission of energy in both directions over those two lines. Is that correct? A. Yes.

Q. Now, does that mean that you assumed that the transmission of the backfeed energy North over those lines is not a use by Baltimore of those lines? A. You mean by that for the benefit of Baltimore?

Q. Yes. A. I assumed that was for the benefit of Holtwood.

Q. Then you would say that the transmission of that backfeed is not for the benefit of Baltimore. Is that your testimony? A. Largely not.

Q. You say largely not. To what extent is it a benefit to Baltimore? A. That backfeed occurs in various amounts at various times during the period of low flow when the bulk of it [11112] goes up to Holtwood, it is to enable Holtwood to meet its contractual obligations with Pennsylvania customers which it could not do without that assistance, and that is the particular reason for considering it a benefit to Holtwood, and not to Baltimore.

Q. Well, Mr. Davis, I haven't asked you about the benefits to Holtwood. I am asking you about the benefits to Baltimore. Will you confine your answer to that? A. The two are a division of the use.

Q. Will you tell me to what extent you considered backfeed a benefit to Baltimore? A. Backfeed during periods other than extreme low flow is used to help carry the Pennsylvania loads during off-peak periods in order to enable the hydro plants to do their best in furnishing peak service. That is a benefit to Baltimore. It is also a benefit to the hydro plants, because without that you couldn't credit them with anything like the dependable capacity that they actually do furnish.

Q. Well, without that backfeed, you couldn't credit Baltimore with all the savings resulting from interchange with the Pennsylvania customers either? A. A small amount of that backfeed is used directly for interchange. It is a small amount which I did not take into consideration.

Q. Isn't it a fact that as a result of the amounts [11113] of backfeed, there is made available much larger amounts at different times of energy for purposes of interchange with the Pennsylvania customers? A. It might be true.

Q. Well, isn't it a fact? A. Specifically, I haven't any figures to show what effect backfeed has on the interchange with the Pennsylvania customers.

Q. Well, isn't it a fact that by the receipt of backfeed over the 220 kv lines the Safe Harbor-Penn Water system is thereby enabled to store water for use for interchange purposes at different times. Isn't that right? A. Well, that is true, other than on system peak periods that that could be used for interchange.

Q. And it is so used? A. I expect it is.

* * *

[11114] Q. Now, let's get back to my question, Mr. Davis. The fact is that Baltimore benefits by all of the interchange transactions which result from the back-feed that [11115] comes north on the 220 kilovolt lines, isn't that correct? A. Baltimore benefits from all of the operations of the whole system.

Q. I haven't asked you about all of the operations, Mr. Davis. Will you confine yourself to the backfeed and interchange transactions. A. This is one of them and it gets some benefit from that.

Q. When you say "some", they get all of the savings do they not, that are credited to the Safe Harbor-Holtwood system? A. That is true. They get all the revenue that is received by Holtwood from any source.

. . .

THE WITNESS: There is a net bill rendered to Baltimore, and that bill is reduced by every cent of revenue that Holtwood receives from any source. In that way Baltimore gets [11116] benefit from every transaction that Holtwood makes.

By Mr. MYSE:

Q. So it may also benefit by reason of any back-feed transmitted north on the 220 kilovolt system which may be used in connection directly or indirectly with firm power sales to the Pennsylvania customers. Is that right? A. That is true. It can't help but benefit from it.

Q. So, too, Baltimore may benefit from the fact that back-feed is transmitted north on the 220 kilovolt lines, and converted at Safe Harbor and used for railroad purposes. Isn't that correct? A. In the same way, that is correct.

Q. So that it appears that so far as back-feed transmission over the 220 kilovolt lines is concerned, Baltimore benefits by that back-feed. Is not that correct? A. That is true in the same way as I explained.

Q. But you don't call that a use for Baltimore. Is that right? A. No, I have considered that a use to enable Holtwood to perform the function that it does, and of course if it performs it, Baltimore gets the benefit of it. If it was not assisted to perform that, Baltimore would lose the contracts by default in Pennsylvania, and of course would lose all that revenue. In that way you can say Baltimore